

**AUDITED FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTAL INFORMATION
OTHER FINANCIAL INFORMATION
AND SUPPLEMENTAL REPORTS**

CITY OF IRONWOOD, MICHIGAN

June 30, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF IRONWOOD	County GOGEBIC
Audit Date JUNE 30, 2004	Opinion Date SEPTEMBER 24, 2004	Date Accountant Report Submitted to State: DECEMBER 23, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

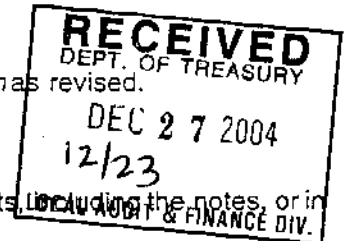
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) JOKI, MAKELA & POLLACK, P.L.L.C.			
Street Address 301 N. SUFFOLK ST.	City IRONWOOD	State MI	ZIP 49938
Accountant Signature <i>Joki, Makela & Pollack, PLLC</i>			



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JOKI, MAKELA & POLLACK, P.L.L.C.

**CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Commissioners
City of Ironwood, Michigan
Ironwood, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of City of Ironwood, Michigan as of and for the year ended June 30, 2004, which collectively comprise the basic financial statements of City of Ironwood, Michigan, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Ironwood Housing Commission. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of City of Ironwood, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable; thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2004, on our consideration of City of Ironwood, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 6 through 11 and pages 76 and 77 respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ironwood, Michigan's basic financial statements. The accompanying Other Financial Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and Statements of Application of Block Grant Funds are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and by U.S. Department of Housing and Urban Development and are also not a required part of the basic financial statements of City of Ironwood, Michigan. The Other Financial Information and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information included in the statements of application of block grant funds has been subjected to the auditing procedures applied in the audit of the basic financial statements as of and for the years ended June 30, 2002, 2003 and 2004, and, in our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Joki, Makala & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
September 24, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

Management's Discussion and Analysis

This section of the City of Ironwood, Michigan's (City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended June 30, 2004. It is to be read in conjunction with the City's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2004. This is the first year of GASB 34 implementation. As a result the financial report is presented differently than previous years. Because this is the first year of implementation of GASB Statement No. 34, prior-year data is not available but will be provided in subsequent years for comparative purposes.

Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the City as a whole. The statements are prepared using the accrual method of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the City's assets and liabilities except the fiduciary funds. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental and business-type activities and component unit of the City that include all services performed by the City. These activities are funded primarily by property taxes, charges for services and by federal and state grants.

The statement of net assets shows the City's assets and liabilities. The corresponding balance between the assets and liabilities equals the net assets or deficit of the City. A deficit occurs when there are more liabilities than there are assets to pay those liabilities. This statement measures the financial strength of the City; the greater the net asset figure, the healthier the financial position of the City generally is. It helps management determine if the City will be able to fund current obligations and whether they have resources available for future use.

The statement of activities shows the current year change in net assets on a revenue less expenditure basis. It generally shows the operating results for a given year of the City. Any excess of revenues over expenditures results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the City.

Fund Financial Statements

The City's fund financial statements show detail of funds that are determined to be significant, called major funds. The funds that are separately stated as major funds are the General Fund, Major Street Fund, Water Utility Fund, Sewer Utility Fund and Internal Service Fund. All other funds are considered nonmajor and are reported as one column.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund Financial Statements (Continued)

Governmental funds are reported in the fund financial statements and contain the same functions reported as governmental activities in the government-wide financial statements. However, the fund statements provide a different view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds include the same functions reported as business-type activities in government-wide financial statements. Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. Because the City's internal service funds primarily serve other City functions, they are included within the governmental activities of the government-wide financial statements.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds.

Fiduciary funds such as the employee pension plans are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund City programs. Fiduciary fund financial statements report similarly to proprietary funds.

Government-wide Financial Statements – Condensed Financial Information

Statement of Net Assets

The following is a June 30, 2004, condensed statement of net assets with a detailed analysis of the statement below.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Assets (Continued)

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
ASSETS			
Current Assets:			
Cash and investments	\$ 1,644,227	\$ 116,651	\$ 1,760,878
Receivables	1,317,424	197,978	1,515,402
Other current assets	<u>302,706</u>	<u>(40,435)</u>	<u>262,271</u>
Total Current Assets	\$ 3,264,357	\$ 274,194	\$ 3,538,551
Noncurrent Assets:			
Restricted cash		\$ 252,000	\$ 252,000
Investment in Gogebic-Iron			
Wastewater Authority		2,629,516	2,629,516
Other noncurrent assets		48,058	48,058
Capital assets, net of accumulated depreciation	<u>\$ 5,983,227</u>	<u>6,308,862</u>	<u>12,292,089</u>
Total Noncurrent Assets	\$ 5,983,227	\$ 9,238,436	\$ 15,221,663
Total Assets	<u>\$ 9,247,584</u>	<u>\$ 9,512,630</u>	<u>\$ 18,760,214</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 140,961	\$ 71,627	\$ 212,588
Deferred revenues	578,155	26,381	604,536
Other current liabilities	<u>31,964</u>	<u>36,522</u>	<u>68,486</u>
Total Current Liabilities	\$ 751,080	\$ 134,530	\$ 885,610
Long-term liabilities:			
Compensated absences	\$ 564,363	\$ 159,277	\$ 723,640
Due within one year	317,169	131,087	448,256
Due beyond one year	<u>2,503,436</u>	<u>2,099,450</u>	<u>4,602,886</u>
	<u>\$ 3,384,968</u>	<u>\$ 2,389,814</u>	<u>\$ 5,774,782</u>
Total Liabilities	<u>\$ 4,136,048</u>	<u>\$ 2,524,344</u>	<u>\$ 6,660,392</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Assets (Continued)

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
NET ASSETS			
Investment in capital assets, net of related debt	\$ 3,162,622	\$ 4,041,803	\$ 7,204,425
Restricted	79,839	252,000	331,839
Unrestricted	<u>1,869,075</u>	<u>2,694,483</u>	<u>4,563,558</u>
Total Net Assets	<u>\$ 5,111,536</u>	<u>\$ 6,988,286</u>	<u>\$ 12,099,822</u>

The City's net assets are \$12,099,822 at June 30, 2004. Capital assets, net of related debt are \$7,204,425. This figure is derived by taking the original costs of the City's assets, subtracting accumulated depreciation to date and comparing this figure to the amount of long-term debt used to finance the acquisition of those assets. Infrastructure assets capitalized by the City during the year ended June 30, 2004, were \$647,719.

Restricted net assets are restricted for debt service.

The unrestricted net assets are \$4,563,558 as of June 30, 2004. This is the net accumulated results of the current and past years' operations. The nature of the City's operations is based on property taxes, charges for services, state aid, federal grants and local funds received to fund various programs.

Statement of Activities

The results of operations for the City as a whole are reported in the statement of activities. This statement reports the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to the previous year are not made.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Activities (Continued)

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Revenue:			
Program Revenues:			
Charges for services	\$ 368,949	\$ 3,115,407	\$ 3,484,356
Operating grants	1,623,356	7,500	1,630,856
Capital grants	511,191		511,191
General Revenues:			
State grants	922,782		922,782
Property taxes	1,596,492		1,596,492
Other	<u>240,367</u>	<u>3,097</u>	<u>243,464</u>
Total Revenue	\$ 5,263,137	\$ 3,126,004	\$ 8,389,141
Program expenses:			
Governmental activities	\$ 4,504,196		\$ 4,504,196
Business-type activities		<u>\$ 2,862,517</u>	<u>2,862,517</u>
Total Program Expenses	\$ 4,504,196	\$ 2,862,517	\$ 7,366,713
Increase in Net Assets	\$ <u>758,941</u>	\$ <u>263,487</u>	\$ <u>1,022,428</u>

The City had an overall increase in net assets of \$1,022,428 for the year ended June 30, 2004. The largest increase in the net assets for the business-type activities were due to operations of the Water and Sewer Utility Funds. The largest increase in the net assets for governmental activities were due to capital outlay expenditures capitalized in the Major Street Fund of \$647,719. Starting July 1, 2003, the City capitalized infrastructure capital outlay instead of expensing these items. Operating grants and contributions continue to be recognized as program revenues.

The City's revenues totaled \$8,454,689.

The City's total cost to fund all governmental activities was \$4,569,744, business-type activities was \$2,862,517. A majority of these costs were funded by property taxes and state aid. This shows the City has reliance on property taxes and state aid to provide future funding for their programs and administrative costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental Fund Budgetary Items

During the year, the City revised its original budget several times to account for the changing environment of funding sources and spending needs. The most significant budget to actual variances were in the area of Public Works and operating transfers out. The General Fund overspent its budget in these areas by \$103,601 and \$69,194, respectively. A schedule showing the City's original budget, final budget and the actual results is included as required supplementary information in the financial section of the audit report.

Capital Assets

At June 30, 2004, the City had \$12,292,089 invested in capital assets, net of depreciation. The City's net capital assets increased during the past fiscal year by \$603,873. Additions totaling \$1,179,951 were offset by depreciation charges of \$573,308 and net book value of assets disposed of was \$2,770. The City reported infrastructure asset additions of \$647,719 during the year ended June 30, 2004. These consisted of street construction projects.

Debt

The City had \$5,774,782 of long-term liabilities at June 30, 2004. These amounts consist of a revenue bonds payable, general obligation bonds and note payable, accrued paid time off benefits payable to employees, a financing agreement and equipment purchase contracts payable.

Future Considerations

The change in state aid payments and budget cuts, increasing reliance of certain Special Revenue Funds on General Fund support, increasing health insurance costs and increasing pension costs will impact the financial condition of the City. Pension Funds will have a reduced impact because of recent negotiated lower health care benefits. Active employees health care was also significantly reduced. The City has adopted a budget for the upcoming fiscal year that should not over expend its funding and should leave the City with a positive Fund Balance. The City continues to utilize grants to promote street projects and improvements to infrastructure. Cooperative and collaborative efforts have enabled shared funding sources between departments. For example, Norrie/Lowell Street project had four sources (MEDC, CDBG, MDOT and General Fund), which provided the Street and Community Development Departments with revenues for this project. Comparative analysis will be provided in future years when prior year information is available.

Contacting the City

If you have any questions about this report or need additional information, contact the City offices at City of Ironwood, 213 S. Marquette Street, Ironwood, MI 49938; telephone number (906) 932-5050.

BASIC
FINANCIAL
STATEMENTS

STATEMENT OF
CITY OF IRONWOOD,
JUNE 30,

	Primary Government			Component
	Governmental	Business-Type	Total	Unit
	Activities	Activities		
ASSETS				
Cash and cash equivalents	\$ 1,049,630	\$ 116,651	\$ 1,166,281	\$ 113,920
Investments	594,597		594,597	515,048
Receivables (net, where applicable, of allowances for uncollectibles):				
Accounts	583,251	197,978	781,229	13,514
Notes	734,173		734,173	
Internal balances	210,966	(210,966)		
Inventories	24,623	170,531	195,154	11,444
Prepaid expenses	67,117		67,117	114
Capital assets:				
Land, buildings, equipment and infrastructure	\$ 13,039,841	\$ 10,828,304	\$ 23,868,145	\$ 6,890,308
Less allowances for depreciation	(7,056,614)	(4,602,519)	(11,659,133)	(3,754,334)
Construction in progress		83,077	83,077	325,577
	\$ 5,983,227	\$ 6,308,862	\$ 12,292,089	\$ 3,461,551
Investment in Gogebic-Iron Wastewater Authority		2,629,516	2,629,516	
Deferred loan charges and bond discount		48,058	48,058	
Restricted cash		252,000	252,000	
Total Assets	\$ 9,247,584	\$ 9,512,630	\$ 18,760,214	\$ 4,115,591

NET ASSETS

MICHIGAN

2004

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
LIABILITIES				
Accounts payable	\$ 140,961	\$ 71,627	\$ 212,588	\$ 65,462
Undistributed tax collections	11,875		11,875	
Interest payable	20,089	36,522	56,611	
Deferred revenues and deposits	578,155	26,381	604,536	25,837
Compensated absences	564,363	159,277	723,640	10,427
Long-term debt -				
Bonds, notes payable and equipment contracts payable:				
Due within one year	\$ 317,169	\$ 131,087	\$ 448,256	
Due beyond one year	<u>2,503,436</u>	<u>2,099,450</u>	<u>4,602,886</u>	
	<u>\$ 2,820,605</u>	<u>\$ 2,230,537</u>	<u>\$ 5,051,142</u>	
Total Liabilities	<u>\$ 4,136,048</u>	<u>\$ 2,524,344</u>	<u>\$ 6,660,392</u>	<u>\$ 101,726</u>
NET ASSETS				
Net assets:				
Invested in capital assets, net of related debt	\$ 3,162,622	\$ 4,041,803	\$ 7,204,425	\$ 3,461,551
Restricted	79,839	252,000	331,839	
Unrestricted	<u>1,869,075</u>	<u>2,694,483</u>	<u>4,563,558</u>	<u>552,314</u>
Net Assets	<u>\$ 5,111,536</u>	<u>\$ 6,988,286</u>	<u>\$ 12,099,822</u>	<u>\$ 4,013,865</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT
CITY OF IRONWOOD,
Year ended

			Program Revenues	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
Legislative	\$ 32,374			
General government	676,511	\$ 94,075		
Public safety	1,094,221	44,668	\$ 8,833	
Public works	1,414,882	62,195	1,272,113	\$ 511,191
Recreation and culture	237,482	28,047	7,512	
Health and welfare	476,116	79,157	334,898	
Other functions	252,656	60,807		
Interest on long-term debt	127,851			
Depreciation (unallocated)	192,103			
Total Governmental Activities	\$ 4,504,196	\$ 368,949	\$ 1,623,356	\$ 511,191
Business-type activities:				
Water Utility	\$ 1,552,402	\$ 1,663,493	\$ 7,500	
Sewer Utility	1,173,002	1,358,192		
Civic Center	137,113	93,722		
Total Business-Type Activities	\$ 2,862,517	\$ 3,115,407	\$ 7,500	\$ 0
Total Primary Government	\$ 7,366,713	\$ 3,484,356	\$ 1,630,856	\$ 511,191
Component Unit	856,494	336,805	364,597	
General revenues:				
Taxes				
Licenses and permits				
State grants				
Contributions from local units				
Fines and forfeits				
Interest and rents				
Other revenues				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net assets at July 1, 2003				
Net assets at June 30, 2004				

The accompanying notes are an integral part of the financial statements.

OF ACTIVITIES

MICHIGAN

June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (32,374)		\$ (32,374)	
(582,436)		(582,436)	
(1,040,720)		(1,040,720)	
430,617		430,617	
(201,923)		(201,923)	
(62,061)		(62,061)	
(191,849)		(191,849)	
(127,851)		(127,851)	
(192,103)		(192,103)	
\$ (2,000,700)		\$ (2,000,700)	
	\$ 118,591	\$ 118,591	
	185,190	185,190	
	(43,391)	(43,391)	
\$ 0	\$ 260,390	\$ 260,390	
\$ (2,000,700)	\$ 260,390	\$ (1,740,310)	
			\$ (155,092)
\$ 1,596,492		\$ 1,596,492	
28,432		28,432	
922,782		922,782	
13,300		13,300	
62,869		62,869	
28,940	\$ 1,097	30,037	\$ 11,462
108,826		108,826	9,351
(2,000)	2,000		
\$ 2,759,641	\$ 3,097	\$ 2,762,738	\$ 20,813
\$ 758,941	\$ 263,487	\$ 1,022,428	\$ (134,279)
4,352,595	6,724,799	11,077,394	4,148,144
\$ 5,111,536	\$ 6,988,286	\$ 12,099,822	\$ 4,013,865

COMBINED BALANCE SHEET - GOVERNMENTAL FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2004

	General	Major Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 619,156	\$ 24,911	\$ 405,563	\$ 1,049,630
Investments			594,597	594,597
Receivables (net, where applicable, of allowances for uncollectibles):				
Accounts	512,099		71,152	583,251
Notes			734,173	734,173
Due from other funds	62,886	369,945	78,537	511,368
Inventories	24,623			24,623
Prepaid expenses	67,117			67,117
	<u>\$1,285,881</u>	<u>\$ 394,856</u>	<u>\$ 1,884,022</u>	<u>\$ 3,564,759</u>
LIABILITIES AND MUNICIPAL EQUITY				
Accounts payable	\$ 70,876	\$ 16,431	\$ 42,310	\$ 129,617
Due other funds	428,292	118,004	110,950	657,246
Undistributed tax collections	11,875			11,875
Deferred revenues		235,510	342,645	578,155
Total Liabilities	\$ 511,043	\$ 369,945	\$ 495,905	\$ 1,376,893
Municipal equity:				
Fund balance:				
Reserved		\$ 24,911	\$ 493,900	\$ 518,811
Unreserved	\$ 774,838		894,217	1,669,055
Total Municipal Equity	<u>\$ 774,838</u>	<u>\$ 24,911</u>	<u>\$ 1,388,117</u>	<u>\$ 2,187,866</u>
	<u>\$1,285,881</u>	<u>\$ 394,856</u>	<u>\$ 1,884,022</u>	<u>\$ 3,564,759</u>

The accompanying notes are an integral part of the
financial statements.

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

CITY OF IRONWOOD, MICHIGAN

June 30, 2004

Fund balances - total governmental funds		\$ 2,187,866
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds.		
Governmental capital assets	\$ 10,643,443	
Less accumulated depreciation	<u>(5,497,371)</u>	5,146,072
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Accumulated absences	\$ (494,475)	
Bonds and notes payable	(2,412,417)	
Interest on long-term debt	<u>(20,089)</u>	(2,926,981)
Internal Service Fund net assets are presented in the Statement of Net Assets as a governmental activity, but are not included in the Combined Balance Sheet for Governmental Funds		<u>704,579</u>
Net assets of governmental activities		<u>\$ 5,111,536</u>

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

	General	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 1,356,820		\$ 239,672	\$ 1,596,492
Licenses and permits	28,432			28,432
State grants	960,573	\$ 689,827	239,354	1,889,754
Federal grants	321,486	511,191	334,898	1,167,575
Contributions from local units			13,300	13,300
Fines and forfeits			62,869	62,869
Charges for services	114,268		78,529	192,797
Interest and rents	115,204	155	10,576	125,935
Other revenues	<u>75,691</u>	<u>1,019</u>	<u>111,273</u>	<u>187,983</u>
Total Revenues	\$ 2,972,474	\$ 1,202,192	\$ 1,090,471	\$ 5,265,137
Expenditures:				
Current:				
Legislative	\$ 32,374			\$ 32,374
General government	545,552		\$ 114,986	660,538
Public safety	1,178,305		39,515	1,217,820
Public works	505,449	\$ 568,416	428,042	1,501,907
Recreation and culture	95,195		141,848	237,043
Health and welfare	125,169		350,947	476,116
Other functions	60,162	60,190	132,304	252,656
Capital outlay	72,064	647,719	28,130	747,913
Debt service	<u>62,887</u>	<u>87,035</u>	<u>162,544</u>	<u>312,466</u>
Total Expenditures	\$ 2,677,157	\$ 1,363,360	\$ 1,398,316	\$ 5,438,833
Excess (Deficiency) of Revenues Over Expenditures	\$ 295,317	\$ (161,168)	\$ (307,845)	\$ (173,696)
Other financing sources (uses) -				
Operating transfers in (out)	\$ (493,733)	\$ 186,079	\$ 305,654	\$ (2,000)
Proceeds from borrowing	<u>14,550</u>		<u>4,000</u>	<u>18,550</u>
	<u>\$ (479,183)</u>	<u>\$ 186,079</u>	<u>\$ 309,654</u>	<u>\$ 16,550</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ (183,866)	\$ 24,911	\$ 1,809	\$ (157,146)
Fund balance at July 1, 2003	<u>958,704</u>		<u>1,386,308</u>	<u>2,345,012</u>
FUND BALANCE AT JUNE 30, 2004	<u>\$ 774,838</u>	<u>\$ 24,911</u>	<u>\$ 1,388,117</u>	<u>\$ 2,187,866</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

Net change in fund balance - total governmental funds		\$ (157,146)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives :		
Expenditures for capital assets	\$ 747,913	
Less current year depreciation	<u>(192,103)</u>	555,810
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.		184,615
Proceeds from borrowing is an other financing source in the governmental funds, but it increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities		(18,550)
Compensated absences not payable from current year resources are not reported as expenditures of the current year. In the Statement of Activities, those costs represent expenses of the current year. The net change from beginning to end of year does not affect the Statement of Activities.		128,664
Change in Net Assets of the Internal Service Fund is reported in the Statement of Activities, but is not included in the governmental funds Statement of Revenues, Expenditures and Fund Balance.		<u>65,548</u>
Change in net assets of governmental funds		<u>\$ 758,941</u>

The accompanying notes are an integral part of the
financial statements.

COMBINED STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2004

	Business-Type Activities Enterprise Funds				Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Other Enterprise Fund	Total Enterprise Funds	
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 265	\$ 116,186	\$ 200	\$ 116,651	
Accounts receivable, less \$14,403 allowance for uncollectibles	109,253	88,725		197,978	
Due from other funds	153,299			153,299	\$ 358,301
Inventories	<u>154,096</u>	<u>16,435</u>		<u>170,531</u>	
Total Current Assets	\$ 416,913	\$ 221,346	\$ 200	\$ 638,459	\$ 358,301
Non Current Assets:					
Capital assets	\$ 7,066,821	\$ 2,590,579	\$ 1,170,904	\$ 10,828,304	\$ 2,396,398
Less allowances for depreciation	<u>(3,180,483)</u>	<u>(877,117)</u>	<u>(544,919)</u>	<u>(4,602,519)</u>	<u>(1,559,243)</u>
	\$ 3,886,338	\$ 1,713,462	\$ 625,985	\$ 6,225,785	\$ 837,155
Construction in progress	<u>29,320</u>	<u>53,757</u>		<u>83,077</u>	
Total Noncurrent Assets	\$ 3,915,658	\$ 1,767,219	\$ 625,985	\$ 6,308,862	\$ 837,155
Other assets:					
Investment in Gogebic-Iron Wastewater Authority		\$ 2,629,516		\$ 2,629,516	
Deferred loan charges and bond discount, net of amortization	\$ 40,694	7,364		48,058	
Restricted cash	<u>226,319</u>	<u>25,681</u>		<u>252,000</u>	
	\$ 267,013	\$ 2,662,561		\$ 2,929,574	
Total Assets	\$ 4,599,584	\$ 4,651,126	\$ 626,185	\$ 9,876,895	\$ 1,195,456

COMBINED STATEMENT OF NET ASSETS - PROPRIETARY FUNDS (CONTINUED)

	Business-Type Activities Enterprise Funds				Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Other Enterprise Fund	Total Enterprise Funds	
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 55,579	\$ 5,068	\$ 10,980	\$ 71,627	\$ 11,344
Accrued interest	28,127	8,395		36,522	
Due other funds	140,871	191,409	31,985	364,265	1,457
Customer deposits	26,381			26,381	
Current maturities on long-term debt	<u>90,572</u>	<u>28,501</u>	<u>12,014</u>	<u>131,087</u>	<u>71,054</u>
Total Current Liabilities	\$ 341,530	\$ 233,373	\$ 54,979	\$ 629,882	\$ 83,855
Long-term debt					
Compensated absences	\$ 137,276	\$ 22,001		\$ 159,277	\$ 69,888
General obligation limited tax bonds	103,077	187,653		290,730	
Revenue bonds	1,605,000	210,000		1,815,000	
Equipment contract and note payable			\$ 124,807	124,807	408,188
Less portion included in current liabilities	<u>(90,572)</u>	<u>(28,501)</u>	<u>(12,014)</u>	<u>(131,087)</u>	<u>(71,054)</u>
Total Noncurrent Liabilities	\$ 1,754,781	\$ 391,153	\$ 112,793	\$ 2,258,727	\$ 407,022
Total Liabilities	<u>\$ 2,096,311</u>	<u>\$ 624,526</u>	<u>\$ 167,772</u>	<u>\$ 2,888,609</u>	<u>\$ 490,877</u>
NET ASSETS					
Net Assets:					
Invested in capital assets, net of related debt	\$ 2,179,454	\$ 1,361,171	\$ 501,178	\$ 4,041,803	\$ 428,967
Restricted	226,319	25,681		252,000	
Unrestricted (deficit)	<u>97,500</u>	<u>2,639,748</u>	<u>(42,765)</u>	<u>2,694,483</u>	<u>275,612</u>
Total Net Assets	<u>\$ 2,503,273</u>	<u>\$ 4,026,600</u>	<u>\$ 458,413</u>	<u>\$ 6,988,286</u>	<u>\$ 704,579</u>

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - PROPRIETARY FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

	Business-Type Activities Enterprise Funds				Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Other Enterprise Fund	Total Enterprise Funds	
Operating revenues:					
Charges for service	\$ 1,639,388	\$ 1,351,063	\$ 59,175	\$ 3,049,626	\$ 735,883
Other	<u>31,605</u>	<u>7,129</u>	<u>34,547</u>	<u>73,281</u>	
	\$ 1,670,993	\$ 1,358,192	\$ 93,722	\$ 3,122,907	\$ 735,883
Operating expenses:					
Personnel services	\$ 436,982	\$ 180,374	\$ 33,605	\$ 650,961	\$ 243,813
Purchase of services	800,657	872,293	44,143	1,717,093	148,893
Materials and supplies	121,754	35,456	12,786	169,996	88,650
Provisions for depreciation	<u>115,979</u>	<u>55,570</u>	<u>45,300</u>	<u>216,849</u>	<u>164,356</u>
	\$ 1,475,372	\$ 1,143,693	\$ 135,834	\$ 2,754,899	\$ 645,712
Operating Income (Loss)	\$ 195,621	\$ 214,499	\$ (42,112)	\$ 368,008	\$ 90,171
Nonoperating revenues:					
Interest earned	\$ 991	\$ 106		\$ 1,097	
Loss on sale of equipment					\$ (2,245)
Debt service interest	(77,030)	(29,309)	\$ (1,279)	(107,618)	(22,378)
Operating transfer in from General Fund	<u></u>	<u></u>	<u>2,000</u>	<u>2,000</u>	<u></u>
	\$ (76,039)	\$ (29,203)	\$ 721	\$ (104,521)	\$ (24,623)
Change in Net Assets	\$ 119,582	\$ 185,296	\$ (41,391)	\$ 263,487	\$ 65,548
Net assets at July 1, 2003	<u>2,383,691</u>	<u>3,841,304</u>	<u>499,804</u>	<u>6,724,799</u>	<u>639,031</u>
NET ASSETS AT JUNE 30, 2004	<u>\$ 2,503,273</u>	<u>\$ 4,026,600</u>	<u>\$ 458,413</u>	<u>\$ 6,988,286</u>	<u>\$ 704,579</u>

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

	Business-Type Activities Enterprise Funds				Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Other Enterprise Fund	Total Enterprise Funds	
Cash flows from operating activities:					
Cash received from customers	\$ 1,635,652	\$ 1,348,373	\$ 93,722	\$ 3,077,747	\$ 637,652
State grant	7,500			7,500	
Cash paid to employees and suppliers for goods and services	<u>(1,363,717)</u>	<u>(1,179,057)</u>	<u>(75,022)</u>	<u>(2,617,796)</u>	<u>(520,695)</u>
Net Cash Provided by Operating Activities	\$ 279,435	\$ 169,316	\$ 18,700	\$ 467,451	\$ 116,957
Cash flows from capital and related financing activities:					
Acquisition and construction of property and equipment	\$ (252,828)	\$ (65,087)	\$ (145,764)	(463,679)	\$ (29,895)
Proceeds from sale of equipment					525
Principal paid on long-term debt	(90,572)	(75,858)	(5,918)	(172,348)	(80,859)
Interest paid on long-term debt	(77,187)	(28,018)	(1,279)	(106,484)	(22,378)
Proceeds from borrowing			<u>130,725</u>	<u>130,725</u>	<u>15,650</u>
Net Cash (Used in) Capital and Related Financing Activities	\$ (420,587)	\$ (168,963)	\$ (22,236)	\$ (611,786)	\$ (116,957)
Cash flows from noncapital financing activities - Operating transfer in from General Fund			2,000	2,000	
Cash flows from investing activities - Interest earned	<u>991</u>	<u>106</u>		<u>1,097</u>	
Net Increase (Decrease) in Cash	\$ (140,161)	\$ 459	\$ (1,536)	\$ (141,238)	\$ 0
Cash and cash equivalents at July 1, 2003	<u>366,744</u>	<u>141,409</u>	<u>1,736</u>	<u>509,889</u>	<u>0</u>
CASH AND CASH EQUIVALENTS AT JUNE 30, 2004	\$ <u>226,583</u>	\$ <u>141,868</u>	\$ <u>200</u>	\$ <u>368,651</u>	\$ <u>0</u>

COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water Utility	Sewer Utility	Other Enterprise Fund	Total Enterprise Funds	Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 195,621	\$ 214,499	\$ (42,112)	\$ 368,008	\$ 90,171
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	\$ 115,978	\$ 55,571	\$ 45,300	\$ 216,849	\$ 164,356
(Increase) decrease in current assets:					
Accounts receivable	(27,841)	(9,819)		(37,660)	(98,231)
Due from other funds	903			903	
Inventories	10,295	7,837		18,132	
Increase (decrease) in liabilities:					
Trade accounts payable	(38,812)	(32,340)	5,433	(65,719)	(12,751)
Salaries and wages	(6,920)	(2,501)		(9,421)	(3,491)
Due other funds	11,390	(49,477)	10,079	(28,008)	1,457
Customer deposits	6,251			6,251	
Compensated absences	12,570	(14,454)		(1,884)	(24,554)
Total adjustments	\$ 83,814	\$ (45,183)	\$ 60,812	\$ 99,443	\$ 26,786
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 279,435	\$ 169,316	\$ 18,700	\$ 467,451	\$ 116,957

The accompanying notes are an integral part of the
financial statements.

COMBINED STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2004

	Pension Trust Funds	Agency Funds
ASSETS		
Cash	\$ 472,249	\$ 904
Receivables:		
Interest	41,140	
Delinquent property taxes	3,992	
Investments:		
U.S. Treasury and agency obligations	1,361,177	
Domestic corporate bonds	1,440,453	
Domestic stock and mutual funds	6,344,526	
Money market funds	<u>770,362</u>	<u> </u>
Total Assets	<u>\$ 10,433,899</u>	<u>\$ 904</u>
LIABILITIES		
Liabilities:		
Accounts payable	\$ 8,781	
Undistributed tax collections	<u> </u>	<u>\$ 904</u>
Total Liabilities	<u>\$ 8,781</u>	<u>\$ 904</u>
NET ASSETS		
Net assets held in trust for:		
Pension benefits	\$ 10,388,176	
Postemployment health care benefits	<u>36,942</u>	
Total Net Assets	<u>\$ 10,425,118</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
PENSION TRUST FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

Additions:			
Contributions		\$	482,607
Net investment income			<u>1,012,094</u>
	Total Additions	\$	1,494,701
Deductions:			
Retirement benefits	\$	901,921	
Postemployment health care benefits		264,772	
Refunds of member contributions		44,815	
Administrative expense		<u>32,231</u>	<u>1,243,739</u>
	Net Increase	\$	250,962
Net assets held in trust balance at July 1, 2003			<u>10,174,156</u>
	NET ASSETS HELD IN TRUST AT JUNE 30, 2004	\$	<u>10,425,118</u>

Supplemental disclosure of net increase for the year:

Net increase (decrease) consisted of the following:

Net assets held in trust for:

Pension benefits	\$	315,727
Postemployment health care benefits		<u>(64,765)</u>
	\$	<u>250,962</u>

The accompanying notes are an integral part of the
financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

NOTES TO FINANCIAL STATEMENTS

CITY OF IRONWOOD, MICHIGAN

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Ironwood operates under an elected City Commission. The financial statements of the City have been prepared in conformity with generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the City's accounting policies are described below.

Financial Reporting Entity

The financial statements of the reporting entity include those of City of Ironwood (primary government) and its component unit as required by generally accepted accounting principles.

The financial reporting entity, as required by generally accepted accounting principles, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations referred to generally as component units for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The component unit discussed in the paragraph below is included in the City's reporting entity as a discretely presented component unit because of the audit significance of its operational or financial relationships with the City. This component unit is reported in a separate column to emphasize that it is legally separate from the City.

The Ironwood Housing Commission, located within the City's boundaries, provides housing to elderly individuals. The financial statements of this Commission are included in the financial statements of the City as a component unit because the City has significant fiscal management responsibilities for the Commission. The members of the governing board of the Ironwood Housing Commission are all appointed by the City of Ironwood City Commission, the Housing Commission is required to make annual payments in lieu of taxes in amounts established by the City Commission, and employees of the Housing Commission are considered to be employees of the City of Ironwood. Separate financial statements for the Ironwood Housing Commission may be obtained at its administrative offices at 515 East Vaughn Street, Ironwood, Michigan.

The financial statements of certain other governmental organizations, as set forth below, are not included in the financial statements of the City in accordance with generally accepted accounting principles.

Educational services are provided to citizens through the local school district which is a separate governmental entity. A wastewater system constructed in part within the City's boundaries is provided to citizens through a regional wastewater authority. The financial statements of the City do not include the wastewater authority, which operates autonomously under an intergovernmental service agreement; however, the City's investment in the wastewater authority is accounted for in the Sewer Utility Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report information on all of the activities of the City except for the fiduciary activities. All of the City's activities are considered to be governmental activities, business-type activities or component units. Interfund activity including operating transfers between activities and amounts due to and from activities has been eliminated in the government-wide financial statements.

Fund-based Financial Statements

Separate financial statements are provided on the basis of funds, each of which is considered a separate fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Governmental business-type activities, component units as well as fiduciary funds are provided. The various fund types are grouped in the financial statements as major funds or nonmajor funds. The City reports the following major funds:

General Fund – the general operating fund of the City. This fund is used to account for all financial resources except those required to be accounted for in another fund.

Major Street Fund – used to account for the financial transactions of the City's major street system.

Water Utility Fund – used to account for the financial transactions of the water utility system.

Sewer Utility Fund – used to account for the financial transactions of the sewer utility system.

Internal Service Fund – used to account for the financial transactions of the City's equipment provided to other departments on a cost-reimbursement basis.

All other funds are considered to be nonmajor. They include:

Special Revenue Funds - are used by the City to account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund-based Financial Statements (Continued)

Debt Service Fund - is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Proprietary Funds

Enterprise Funds - are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or for activities where periodic measurement of net income is appropriate for capital maintenance, public policies, management control or other purposes.

Fiduciary Funds

Fiduciary Funds are used to account for assets held in a trustee capacity or as an agent for others.

Basis of Accounting

Government-wide Financial Statements

The Government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses and gains and losses using the economic resources measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The Statement of Activities reports net cost information based on the City's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. Program revenues include charges for services that are fees and other charges to the users or recipients of the services the City provides. Program revenues also include operating grants and contributions that are restricted for a particular purpose. Property taxes, state and federal grant revenues that are not program revenues are reported as general revenues. Internal Service Fund charges to other funds and expenses paid are eliminated from the Statement of Activities.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Fund-based Financial Statements

Governmental fund types and Agency Funds use the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenues are recorded when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Revenues are available when they are collectible during the period and the actual collection will occur either (a) during the current period or (b) after the end of the period but in time to pay fund liabilities. The City considers revenues to be available if they are expected to be collected within 60 days of the end of the year. Generally, tax revenues, fees and nontax revenues are recognized when received. Property tax revenues are recognized as revenue when they are levied, with proper allowances made for estimated uncollectible accounts and delinquent accounts. Other tax revenues, fees and nontax revenues are recognized when received. Grants, entitlements and shared revenues are recorded when they are susceptible to accrual. Expenditure-based grants are recorded as revenue when the conditions of the grants are satisfied. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources, except unmatured interest on general long-term debt is recorded when due.

Proprietary, Internal Service and Fiduciary Financial Statements

Proprietary fund types, Internal Service and Pension Trust Funds use the accrual basis of accounting and the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises; revenues are recorded when earned and expenses are recorded when incurred. Under this basis of accounting and measurement focus, the City applies (a) all GASB pronouncements and (b) FASB Statements and Interpretations, APB Opinions and Accounts Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Granting of Credit

The General Fund grants credit to the State of Michigan and various local units of government and individuals in the western Upper Peninsula of Michigan. The City also extends credit to its Cemetery Trust Fund and Enterprise Fund customers on a routine basis. In addition, the City has loaned various individuals, partnerships and corporations monies as explained in Note E below.

Cash and Cash Equivalents

Cash applicable to a particular fund is readily identifiable. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments. For purposes of the Statement of Cash Flows, cash includes all cash equivalents with a maturity of three months or less.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are reported at fair market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due To and Due From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. In the Statement of Net Assets, interfund receivables and payables between funds classified as governmental activities and funds classified as business-type activities have been eliminated.

Interest Receivable

Interest on investments and certain receivables is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

Inventories

Inventories for all governmental funds and proprietary funds are valued at cost (first-in, first-out).

Other Assets

Other assets held are recorded and accounted for at cost.

Restricted Cash and Investments

Enterprise Funds and the Major Street Fund, because of certain bond covenants, are required to establish and maintain prescribed amounts of restricted resources (consisting of cash and temporary investments) that can be used only to service outstanding debt.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets and Depreciation

Capital assets, including land and improvements, buildings, furniture and fixtures, equipment, vehicles and infrastructure assets (roads, bridges, sidewalks and similar items) are reported in the Government-wide financial statements. Capital assets are defined by the City and its component unit as assets with an acquisition cost of generally more than \$1,000 or betterments totaling \$20,000 with an estimated useful life in excess of five years. Assets meeting this criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at estimated fair market value at the date of donation. The costs of capital assets are charged to expense using an annual allocation of depreciation expense. Taking the depreciable cost of an asset and dividing that cost by its estimated useful life calculates the annual expense. The expense is recorded on the Government-wide Statement of Activities and included as a direct expense of an identifiable function if the assets sole purpose can be identified as being for the function. Depreciation expense (unallocated) is the amount of depreciation expense that cannot be charged to any particular function.

The capital assets are depreciated using the straight-line method over the following useful lives (land excluded as not depreciable):

Land improvements	20 years
Buildings	25-50 years
Furniture, fixtures and other equipment	5-20 years
Vehicles	5-10 years
Roads	5-30 years
Other infrastructure	12-50 years

Long-Term Debt

The City reports long-term debt and other long-term obligations in the Government-wide Statement of Net Assets. Amounts are recorded at face value along with any accrued interest to June 30, 2004.

Pensions

The provision for pension cost is recorded on an accrual basis, and the City's policy is to fund pension costs as they accrue.

Property Tax Revenues

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Allowances are made for estimated uncollectible accounts and delinquent accounts.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Revenues (Continued)

Property taxes attach as an enforceable lien on property as of December 31. City and School taxes are levied on the ensuing July 1, and County taxes are levied on December 1. The City bills and collects its own property taxes and also collects current rolls for the County, State, School District and Intermediate School District.

Delinquent real property taxes of the City are purchased annually by the County of Gogebic.

Vacation, Sick Leave and Other Compensated Absences

City employees are entitled to certain compensated absences based on their length of employment. Compensated absences either vest or accumulate and are accrued when they are earned.

Investment in Capital Assets, Net of Related Debt

This is a portion of net assets of the City that consists of capital assets, net of accumulated depreciation and reduced by long-term liabilities for notes, bonds, accrued interest and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets

Net assets are restricted when there are constraints placed on their use by external parties or by statute.

Unrestricted Net Assets

Net assets not meeting either category above are considered unrestricted.

Fund Balance

In the fund-based financial statements the unreserved fund balances represent the amount available for budgeting future operations. The reserved fund balances represent the tentative and required plans for future use of financial resources.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget

Formal budgetary accounting is employed as a management control for all funds of the City; however, legal budgets are adopted only for the General, Special Revenue and Debt Service Funds. Thus, the budgetary financial statements included in this report do not include proprietary funds or Trust and Agency Funds. For each fund for which a formal budget is adopted, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of generally accepted accounting principles.

The City follows these procedures in establishing data reflected in the financial statements:

1. Prior to July 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is held to obtain taxpayers' comments.
3. Prior to July 1, the budget is legally enacted at the annual meeting by City Commission adoption of a resolution authorizing a General Appropriation Act for the fiscal year.
4. Any revisions to the budgeted amounts are approved by the City Commission.
5. Budgeted amounts are as originally adopted, plus amendments made on or before June 30, by the City Commission.
6. The budget expires on June 30 of the budget year.
7. The budgets for Community Development Block Grant Fund and Neighborhood Preservation Program Fund (special revenue funds) are controlled by grant provisions and are presented in the financial statements accordingly.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Change

Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments (GASB No. 34). Significant changes to the City’s financial statements as a result of GASB No. 34 are as follows:

Management Discussion and Analysis – provides analysis of the City’s overall financial position and results of operations as reported by the City’s management.

Government-wide financial statements – Statement of Net Assets and Statement of Activities are prepared using the full accrual basis of accounting that includes all of the City’s activities.

Capital assets – recorded in the statement of net assets at June 30, 2004, are \$10,643,443 of Governmental Activities capital assets along with \$5,497,371 of accumulated depreciation of those capital assets. The June 30, 2003 financial statements reported \$9,923,043 of fixed assets in the General Fixed Assets Account Group (GFAAG) that has been eliminated for reporting purposes. No change was reported in the historical cost of the assets from the GFAAG to the July 1, 2003 beginning capital assets balance.

Long-term liabilities – recorded in the statement of net assets are \$2,906,892 of Governmental Activities bonds, notes and other obligations that are owed by the City and are not required to be paid until one year from the current period end date of June 30, 2004. These were previously reported by the City in the General Long-term Debt Account Group that has been eliminated with the GASB No. 34 reporting format.

Major and Nonmajor funds – fund-based financial statements focus on major funds rather than fund-types. Major funds are determined based on the comparison of activity of individual governmental funds to total governmental fund activity.

Contributed capital – recorded in the statement of net assets as equity, under description of “invested in capital assets, net of related debt.” These were previously reported by the City as a separate portion of enterprise fund equity. Previously, depreciation on assets acquired by capital grants was reported as a reduction to contributed capital rather than being amortized as a cost of operations.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Public Act 275 of 1980 Disclosure

The City did not have any funds with a net asset deficiency at June 30, 2004. Pat O'Donnell Civic Center Operations had an unrestricted net asset deficiency of \$42,765 at June 30, 2004. That fund also had a net asset invested in capital assets, net of related debt, of \$501,178 at June 30, 2004.

Public Act 621 of 1978 Disclosure

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. In the body of the financial statements, the City's actual expenditures and appropriations have been shown on a functional basis. The approved budgets for the City for these budgetary funds were also adopted on the functional level.

During the year ended June 30, 2004, the City incurred expenditures in certain of its budgetary activities, which were significantly in excess of the amounts appropriated, as follows:

<u>Activity</u>	<u>Appropriations</u>	<u>Expenditures</u>	(Unfavorable) <u>Variance</u>
General Fund:			
Public Works	\$ 401,848	\$ 505,449	\$ (103,601)
Operating transfers out	424,539	493,733	(69,194)
Special Revenue:			
Public Works	\$ 956,450	\$ 996,458	\$ (40,008)
Capital outlay	591,500	675,849	(84,349)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Compliance with Bond Covenants

Revenue bond ordinances issued by the Water Utility and Sewer Utility and Major Street Fund require the City to segregate receipts to establish several reserve accounts. Following is a summary of required reserves and funding levels at June 30, 2004:

	<u>June 30, 2004</u>	
	<u>Required</u>	<u>Reserve</u>
	<u>Reserve</u>	<u>Balance</u>
Water and Sewer Utility:		
1996 Water Supply System Revenue Bonds:		
Bond Reserve Account	\$ 99,500	\$ 107,514
Bond Redemption Account	37,108	88,340
1999 Water Supply System Revenue Bonds:		
Bond Redemption Account	14,469	14,469
2000 Water Supply System Revenue Bond:		
Bond Reserve Account	11,500	11,500
Bond Redemption Account	4,496	4,496
2000 Sewage Disposal System Revenue Bonds:		
Bond Reserve Account	16,500	17,341
Bond Redemption Account	<u>2,489</u>	<u>8,340</u>
	\$ 186,062	\$ 252,000
Major Street Fund:		
2000 Michigan Transportation Fund Bonds		
Debt Service Account	<u>22,705</u>	<u>24,911</u>
TOTALS	<u>\$ 208,767</u>	<u>\$ 276,911</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - CASH AND INVESTMENT INFORMATION

Cash and Cash Equivalents

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately presented on the balance sheet as "Cash and cash equivalents" and "Restricted cash". Total deposits in financial institutions of the primary government at June 30, 2004, totaled \$1,861,952 of which \$145,810 was covered by depository insurance and \$1,716,142 exceeded insurance limits. Total deposits of the component unit at June 30, 2004, were \$113,920, none of which exceeded federal depository insurance limits.

All deposits at June 30, 2004, were made in accordance with State of Michigan statutes and under authorization of the City Commission.

Investments

State of Michigan statutes authorize investments in: direct obligations of the United States or an agency of the United States; banks which are members of the Federal Deposit Insurance Corporation; commercial paper rated at the time of purchase within the three highest classifications established by no fewer than two standard rating services; United States government or agency obligation repurchase agreements; bankers' acceptances of United States banks; certain mutual funds and certain common stocks. All investments were made in accordance with State of Michigan statutes and under authorization of the City Commission. Investments are stated at fair market value.

The City's investments are categorized below to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the agent.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - CASH AND INVESTMENT INFORMATION (CONTINUED)

Investments (Continued)

	<u>Category</u>			<u>Carrying</u>	<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Market</u>
					<u>Value</u>
PRIMARY GOVERNMENT					
U.S. Government direct and agency securities	\$ 1,361,177			\$ 1,361,177	\$ 1,361,177
Domestic corporation and municipal securities	1,440,453			1,440,453	1,440,453
Common stocks and mutual funds	<u>6,344,526</u>			<u>6,344,526</u>	<u>6,344,526</u>
	<u>\$ 9,146,156</u>	<u>\$ 0</u>	<u>\$ 0</u>	\$ 9,146,156	\$ 9,146,156
Money market funds				<u>1,364,959</u>	<u>1,364,959</u>
TOTAL PRIMARY GOVERNMENT				\$ 10,511,115	\$ 10,511,115
COMPONENT UNIT					
Bank certificates of deposit				<u>515,048</u>	<u>515,048</u>
				<u>\$ 11,026,163</u>	<u>\$ 11,026,163</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D - ACCOUNTS RECEIVABLE

Accounts receivable were comprised of the following at June 30, 2004:

<u>Fund</u>		
PRIMARY GOVERNMENT		
General:		
Delinquent taxes	\$ 89,938	
State of Michigan	411,447	
Special assessments	6,001	
Advances to Housing Commission	33,434	
Sundry	<u>17,033</u>	
	\$ 557,853	
Less allowances for uncollectibles	<u>(45,754)</u>	\$ 512,099
Special Revenue:		
Customer accounts and local units of government	\$ 66,665	
Delinquent taxes	<u>2,151</u>	68,816
Debt Service - Delinquent taxes		2,336
Enterprise:		
Customer accounts	\$ 212,381	
Less allowances for uncollectibles	<u>(14,403)</u>	197,978
Pension Trust:		
Delinquent taxes	\$ 3,992	
Interest	<u>41,140</u>	<u>45,132</u>
Total Primary Government	\$ 826,361	
COMPONENT UNIT		
Customer accounts		<u>13,514</u>
TOTAL	\$ 839,875	

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - NOTES RECEIVABLE

Special Revenue Funds

Notes receivable included in assets of the Special Revenue Fund consisted of the following at June 30, 2004:

Economic Development Fund:

5.5% note receivable from local corporation, payable in monthly installments of \$1,861, including interest. The note is collateralized by a security interest in equipment and machinery and by personal guarantees of the stockholders of the corporation. \$ 12,788

7% note receivable from local corporation, payable in monthly installments of \$1,132, including interest. This note is collateralized by a security interest in machinery and equipment and by personal guarantees of the stockholders of the corporation. During the year ended June 30, 2004, the City granted the corporation a 6-month deferral with accruing interest being added to the end of the loan agreement. 46,414

5% note receivable from local corporation, payable in monthly installments of \$439, including interest. This note is collateralized by a security interest in machinery and equipment and by personal guarantees of the stockholder of the corporation. 34,275

4.5% note receivable from local industrial development corporation, payable in monthly installments of \$2,295, including interest, commencing January 1, 2005. This note is secured by a mortgage on real property. 300,000
\$393,477

Housing Development Fund - 0% note receivable from partnership, payable in full on August 16, 2018. Note is collateralized by a second real estate mortgage on land and building in Ironwood, Michigan, and by a security interest in related furnishings, fixtures, machinery and equipment. 320,000

Downtown Ironwood Development Authority - 8.25% to 9.5% notes receivable from individuals, payable in monthly installments totaling \$937. The notes are secured by security interests in machinery and equipment. 20,696

\$734,173

Principal and interest collected on the notes receivable included in the Economic Development and Downtown Ironwood Development Authority Funds are restricted for economic development purposes. The note receivable included in the Housing Development Fund is restricted for housing development purposes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

Changes in primary governmental and proprietary activities and component unit capital assets are summarized below:

	Balance at July 1, 2003	Additions	Disposals	Balance June 30, 2004
PRIMARY GOVERNMENT				
<u>Governmental Activities</u>				
Land and land improvements	\$ 343,566			\$ 343,566
Buildings	7,318,458	\$ 40,226		7,358,684
Machinery and equipment	594,684	7,158		601,842
Office equipment and furniture	388,577	11,117		399,694
Vehicles	671,439	29,414	\$ 27,513	673,340
Library books	606,319	12,279		618,598
Infrastructure		647,719		647,719
	<u>\$ 9,923,043</u>	<u>\$ 747,913</u>	<u>\$ 27,513</u>	<u>\$10,643,443</u>
Less accumulated depreciation	<u>(5,332,781)</u>	<u>(192,103)</u>	<u>(27,513)</u>	<u>(5,497,371)</u>
Net	\$ 4,590,262	\$ 555,810	\$ 0	\$ 5,146,072
<u>Internal Service Fund</u>				
Rental equipment	\$ 2,371,498	\$ 29,895	\$ 4,995	\$ 2,396,398
Less accumulated depreciation	<u>(1,397,112)</u>	<u>(164,356)</u>	<u>(2,225)</u>	<u>(1,559,243)</u>
Total Internal Service Fund	<u>\$ 974,386</u>	<u>\$ (134,461)</u>	<u>\$ 2,770</u>	<u>\$ 837,155</u>
Total Governmental Activities	\$ 5,564,648	\$ 421,349	\$ 2,770	\$ 5,983,227
<u>Proprietary Activities</u>				
<u>Major Funds</u>				
Water Utility Fund:				
Land and land rights	\$ 38,701			\$ 38,701
Water production and distribution plant	6,839,551	\$ 188,569		7,028,120
	<u>\$ 6,878,252</u>	<u>\$ 188,569</u>		<u>\$ 7,066,821</u>
Less accumulated depreciation	<u>(3,064,505)</u>	<u>(115,978)</u>		<u>(3,180,483)</u>
Construction in progress	<u>26,597</u>	<u>2,723</u>		<u>29,320</u>
Net	\$ 3,840,344	\$ 75,314		\$ 3,915,658
Sewer Utility Fund				
Land and land rights	\$ 7,600			\$ 7,600
Sewage transmission	2,535,441	\$ 47,538		2,582,979
	<u>\$ 2,543,041</u>	<u>\$ 47,538</u>		<u>\$ 2,590,579</u>
Less accumulated depreciation	<u>(821,546)</u>	<u>(55,571)</u>		<u>(877,117)</u>
Construction in progress	<u>36,208</u>	<u>17,549</u>		<u>53,757</u>
Net	\$ 1,757,703	\$ 9,516		\$ 1,767,219

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS (CONTINUED)

	Balance at July 1, 2003	Additions	Disposals	Balance June 30, 2004
<u>Proprietary Activities (Continued)</u>				
<u>Nonmajor Fund</u>				
Pat O'Donnell Civic Center				
Operations Fund:				
Civic Center building and equipment	\$ 1,025,140	\$ 145,764		\$ 1,170,904
Less accumulated depreciation	(499,619)	(45,300)		(544,919)
Net	\$ 525,521	\$ 100,464		\$ 625,985
Total Proprietary Funds Activities	\$ 6,123,568	\$ 185,294		\$ 6,308,862
TOTAL PRIMARY GOVERNMENT	\$11,688,216	\$ 606,643	\$ 2,770	\$12,292,089
<u>Component Unit</u>				
Ironwood Housing Commission:				
Land improvements	\$ 502,630			\$ 502,630
Buildings and improvements	6,108,226	\$ 225,596		6,333,822
Equipment	54,554		\$ 698	53,856
	\$ 6,665,410	\$ 225,596	\$ 698	\$ 6,890,308
Less accumulated depreciation	(3,457,383)	(297,649)	(698)	(3,754,334)
Construction in progress	452,095		126,518	325,577
Total Component Unit	\$ 3,660,122	\$ (72,053)	\$ 126,518	\$ 3,461,551

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F – CAPITAL ASSETS (CONTINUED)

At June 30, 2004, the Water Utility Fund and Sewer Utility Fund had various construction projects in progress. Costs accumulated on these projects as of June 30, 2004, was \$83,077. Estimated costs to complete the utility portion of the projects are not available.

The Ironwood Housing Commission had a construction project in progress at June 30, 2004. Costs accumulated on this project were \$325,577.

NOTE G – LONG-TERM DEBT

A summary of changes in long-term debt follows:

	Balance at July 1, <u>2003</u>	<u>Increase</u>	<u>Decrease</u>	Balance at June 30, <u>2004</u>	Amount Due Within <u>One Year</u>
PRIMARY GOVERNMENT					
<u>Governmental Activities</u>					
Water Supply and Sewage Disposal System bonds	\$ 282,840		\$ 23,570	\$ 259,270	\$ 25,927
General Obligation bonds and notes	2,060,000		160,000	1,900,000	170,000
Economic Development Financing Agreement	235,643			235,643	47,647
Promissory note payable		\$ 18,550	1,046	17,504	2,541
Compensated absences	<u>623,139</u>		<u>128,664</u>	<u>494,475</u>	
Total Governmental Activities	\$3,201,622	\$ 18,550	\$ 313,280	\$ 2,906,892	\$ 246,115
<u>Proprietary Activities</u>					
Water Supply and Sewage Disposal System Revenue Bonds	\$ 317,160		\$ 26,430	\$ 290,730	\$ 29,073
General obligation limited tax bonds	1,955,000		140,000	1,815,000	90,000
Promissory note payable		\$ 130,725	5,918	124,807	12,014
Compensated absences	<u>161,161</u>		<u>1,884</u>	<u>159,277</u>	
Total Proprietary Activities	\$2,433,321	\$ 130,725	\$ 174,232	\$ 2,389,814	\$ 131,087
<u>Internal Service Fund</u>					
Equipment contracts payable	\$ 167,397		\$ 59,968	\$ 107,429	\$ 48,764
Note payable	306,000		20,000	286,000	20,000
Promissory note payable		\$ 15,650	891	14,759	2,290
Compensated absences	<u>94,442</u>		<u>24,554</u>	<u>69,888</u>	
Total Internal Service Fund	\$ 567,839	\$ 15,650	\$ 105,413	\$ 478,076	\$ 71,054
TOTAL PRIMARY GOVERNMENT	<u>\$6,202,782</u>	<u>\$ 164,925</u>	<u>\$ 592,925</u>	<u>\$ 5,774,782</u>	<u>\$ 448,256</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – LONG-TERM DEBT (CONTINUED)

Water Supply and Sewage Disposal System bonds total \$550,000 and are further explained in Note H below. The portion included in governmental activities, \$259,270, represents the balance to be repaid with funds other than Water Utility Fund and Sewer Utility Fund revenues. The remaining balance of \$290,730 is accounted for in the Water Utility Fund and Sewer Utility Fund.

Compensated Absences

The City has reported a \$564,363 and \$159,277 liability for accumulated unpaid vacation, sick pay and personal leave and related fringe benefits in its governmental and business-type activities, respectively at June 30, 2004. The City's component unit reported a liability of \$10,427.

The City reports the accumulated absence liability for governmental fund employees in the governmental activities and proprietary fund employees as a liability in the business-type activities in the government-wide financial statements. Amounts expected to be paid to employees within sixty days of year end are recorded as a liability in the financial statements of the fund which will pay for the accumulated absences in the fund-based financial statements.

Following is a summary of employment policies related to accumulated absences:

General City Operations - For employees hired on or before July 1, 1994, sick leave is earned at 1-1/12 days per month, with 2,080 hours maximum accumulation. Upon death or retirement, employees receive all unused sick leave and are paid at their current rate of pay. Upon termination other than death or retirement, employees receive 50 percent of unused sick leave.

For employees hired after July 1, 1994, sick leave is earned at 1-1/12 days per month, with 800 hours maximum accumulation. Employees receive 50 percent of unused sick leave upon termination, including death or retirement.

Vacation leave is earned at varying rates, depending upon length of service. At termination, employees receive all unused vacation leave and are paid at their current rate of pay.

Public Safety Officers - For employees hired on or before April 1, 1995, sick leave is earned at 1-1/12 days per month, with 2,080 hours maximum accumulation. Upon termination after 10 years of service, retirement or death, employees are paid for all accumulated sick leave at their current rate of pay.

For employees hired after April 1, 1995, sick leave accumulation is unlimited. Upon termination, employees are paid for up to 800 hours of accumulated sick leave at 50 percent of their current rate of pay.

Other Fringe Benefits - Included in accumulated absences liability are the related social security and retirement costs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

The annual principal and interest requirements to maturity for all long-term indebtedness outstanding are as follows:

	Year ending June 30,							
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010-2014</u>	<u>2015-2019</u>	<u>Total</u>
PRIMARY GOVERNMENT								
Water Supply and Sewage								
Disposal System Bonds	\$ 92,308	\$ 93,267	\$ 93,840	\$ 94,033	\$ 93,841	\$ 247,378		\$ 714,667
General Obligation								
bonds and note	270,518	271,944	272,863	278,201	282,657	940,360	\$ 168,800	2,485,343
General Obligation								
Limited Tax Bonds -								
Sewer Utility Fund	7,130	6,893	6,651	6,407	6,161	22,097		55,339
Water Supply System and								
Sewer Disposal System								
Revenue Bonds	161,175	157,808	159,275	160,575	161,575	861,812	768,243	2,430,463
Equipment Contracts	53,493	24,148	16,509	16,509	6,878			117,537
Note Payable	33,110	32,160	31,210	30,260	34,191	153,144	58,802	372,877
Economic Development								
Financing Agreement	52,490	24,981	24,981	24,981	24,981	124,905	12,490	289,809
Promissory notes								
payable	<u>19,720</u>	<u>19,720</u>	<u>19,720</u>	<u>19,720</u>	<u>19,720</u>	<u>73,209</u>		<u>171,809</u>
	<u>\$ 689,944</u>	<u>\$ 630,921</u>	<u>\$ 625,049</u>	<u>\$ 630,686</u>	<u>\$ 630,004</u>	<u>\$ 2,422,905</u>	<u>\$ 1,008,335</u>	<u>\$ 6,637,844</u>

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE

Gogebic County Water Supply System No. 1 Bonds, Series 1990

On August 1, 1990, Gogebic County, Michigan, issued \$370,000 of Gogebic County Water Supply System No. 1 (City of Ironwood) Bonds, Series 1990, to finance a Department of Public Works capital outlay project. The bonds are limited tax general obligation bonds issued under provisions of Act 185, Public Acts of Michigan, 1957, as amended, and are payable primarily from the proceeds of certain specified contractual payments to be made to Gogebic County by City of Ironwood pursuant to a contract referred to in the bonds. The City has pledged its full faith and credit for the payment of its contractual payments. All of the bonds were purchased by and are payable to National City Bank.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Gogebic County Water Supply System No. 1 Bonds, Series 1990 (Continued)

The City is accounting for a portion of these bonds and the related assets paid for, in part, from proceeds of the bonds in its Water Utility Fund. The portion of bond proceeds used for street improvements is being accounted for in its governmental activities.

A summary of the annual principal and interest requirements to maturity follows:

Year ending <u>June 30,</u>	Rate of <u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	7.20%	\$ 20,000	\$ 13,578	\$ 33,578
2006	7.25%	25,000	11,952	36,952
2007	7.30%	25,000	10,133	35,133
2008	7.30%	30,000	8,125	38,125
2009	7.40%	30,000	5,920	35,920
2010	7.40%	30,000	3,700	33,700
2011	7.40%	<u>35,000</u>	<u>1,295</u>	<u>36,295</u>
		<u>\$ 195,000</u>	<u>\$ 54,703</u>	<u>\$ 249,703</u>

At June 30, 2004, outstanding bonds payable were accounted for as follows:

Water Utility Fund	\$ 103,077
Governmental activities	<u>91,923</u>
	<u>\$ 195,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Gogebic County Sewage Disposal System No. 1 Bonds, Series 1991

On August 1, 1991, Gogebic County, Michigan, issued \$600,000 of Gogebic County Sewage Disposal System No. 1 (City of Ironwood) Bonds, Series 1991, to finance a Department of Public Works capital outlay project. The bonds are limited tax general obligation bonds issued under provisions of Act 185, Public Acts of Michigan, 1957, as amended, and are payable primarily from the proceeds of certain specified contractual payments to be made to Gogebic County by City of Ironwood, pursuant to a contract referred to in the bonds. The City has pledged its full faith and credit for the payment of its contractual payments. All of the bonds were purchased by and are payable to Roney & Co., Detroit, Michigan.

The City is accounting for a portion of these bonds and the related assets paid for, in part, from proceeds of the bonds in its Sewer Utility Fund. The portion of bond proceeds used for street and drainage improvements is being accounted for in its governmental activities.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	6.90%	\$ 35,000	\$ 23,730	\$ 58,730
2006	6.90%	35,000	21,315	56,315
2007	7.00%	40,000	18,707	58,707
2008	7.00%	40,000	15,908	55,908
2009	7.05%	45,000	12,921	57,921
2010	7.05%	50,000	9,573	59,573
2011	7.10%	55,000	5,857	60,857
2012	7.10%	<u>55,000</u>	<u>1,953</u>	<u>56,953</u>
		<u>\$ 355,000</u>	<u>\$ 109,964</u>	<u>\$ 464,964</u>

At June 30, 2004, outstanding bonds payable were accounted for as follows:

Sewer Utility Fund	\$ 187,653
Governmental activities	<u>167,347</u>
	<u>\$ 355,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

1995 General Obligation Unlimited Tax Bonds

On July 18, 1995, City of Ironwood issued \$2,000,000 of 1995 General Obligation Unlimited Tax Bonds to be used to finance the costs of renovating the Memorial Building.

The bonds are issued under the authority of Act 279, Michigan Public Acts of 1909, as amended, and Act 202, Michigan Public Acts of 1943, as amended. The bonds pledge the full faith and credit of the City for payment of the principal and interest thereon and are payable from ad valorem taxes which may be levied on all taxable property within the boundaries of the City without limitation as to rate or amount for such purpose. Bonds maturing in the years 2008 to 2015 are callable. All of the bonds were purchased by and are payable to Kemper Securities, Inc.

MBIA Insurance Corporation, the insurer, an operating subsidiary of MBIA, Inc. domiciled in the State of New York, has issued an insurance policy which unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City of an amount equal to the principal and interest on the bonds as such payments shall become due but shall not be so paid. The policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any bond.

A summary of the annual principal and interest requirements to maturity follows:

Year ending <u>June 30,</u>	Rate of <u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	5.125%	\$ 90,000	\$ 72,921	\$ 162,921
2006	5.125%	95,000	68,309	163,309
2007	5.200%	100,000	63,440	163,440
2008	5.300%	110,000	58,240	168,240
2009	5.400%	115,000	52,410	167,410
2010	5.500%	120,000	46,200	166,200
2011	5.500%	130,000	39,600	169,600
2012	5.500%	135,000	32,450	167,450
2013	5.500%	145,000	25,025	170,025
2014	5.500%	150,000	17,050	167,050
2015	5.500%	<u>160,000</u>	<u>8,800</u>	<u>168,800</u>
		<u>\$ 1,350,000</u>	<u>\$ 484,445</u>	<u>\$ 1,834,445</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

1999 General Obligation Unlimited Tax Note

On April 20, 1999, the City borrowed \$132,500 from Rural Development Services, Department of Agriculture at an interest rate of 4.75% to purchase a new fire truck. The note requires semiannual interest payments on December 1 and June 1 with principal due December 1.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 15,000	\$ 3,562	\$ 18,562
2006	15,000	2,850	17,850
2007	15,000	2,138	17,138
2008	15,000	1,426	16,426
2009	<u>15,000</u>	<u>712</u>	<u>15,712</u>
	<u>\$ 75,000</u>	<u>\$ 10,688</u>	<u>\$ 85,688</u>

2000 Michigan Transportation Fund Bonds

On April 10, 2000, City of Ironwood issued \$700,000 of 2000 Michigan Transportation Fund Bonds to be used to finance the costs of street improvements.

The bonds are issued under the authority of Act 175, Public Acts of Michigan, 1952, as amended. The bonds pledge the full faith and credit of the City for payment of the principal and interest thereon and are payable from its general funds, including the levy of ad valorem taxes on all taxable property within the boundaries of the City. Bonds maturing in years 2009 and 2010 shall be subject to redemption prior to maturity, at the option of the City, on any interest payment date on or after April 1, 2008 at par. All of the bonds were purchased and are payable to Raymond James & Associates.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	5.00%	\$ 65,000	\$ 24,035	\$ 89,035
2006	5.00%	70,000	20,785	90,785
2007	5.00%	75,000	17,285	92,285
2008	5.00%	80,000	13,535	93,535
2009	5.00%	90,000	9,535	99,535
2010	5.30%	<u>95,000</u>	<u>5,035</u>	<u>100,035</u>
		<u>\$ 475,000</u>	<u>\$ 90,210</u>	<u>\$ 565,210</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

1997 Sewage Disposal System Revenue Bonds

On June 12, 2000, City of Ironwood assumed the obligation of Township of Erwin, Michigan, to pay \$65,000 of outstanding 1997 Sewage Disposal System Revenue bonds issued June 11, 1997, in exchange for ownership in sewage disposal system assets owned by Township of Erwin.

The bonds were purchased by Michigan Municipal Bond Authority (MMBA) and are payable from revenues generated by the Sewage Disposal System. If net revenues are not available, the Issuer shall be required to pay such amounts from its general funds and levy an ad valorem tax on all taxable property in the Township of Erwin. The Township also pledged as additional security, its State of Michigan Revenue Sharing monies.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending</u> <u>June 30,</u>	<u>Rate of</u> <u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	4.70%	\$ 5,000	\$ 2,130	\$ 7,130
2006	4.80%	5,000	1,893	6,893
2007	4.85%	5,000	1,651	6,651
2008	4.90%	5,000	1,407	6,407
2009	4.95%	5,000	1,161	6,161
2010	5.05%	5,000	911	5,911
2011	5.15%	5,000	657	5,657
2012	5.25%	5,000	396	5,396
2013	5.30%	<u>5,000</u>	<u>133</u>	<u>5,133</u>
		<u>\$ 45,000</u>	<u>\$ 10,339</u>	<u>\$ 55,339</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Sewage Disposal System Revenue Bond, Series 2000

On April 1, 2000, City of Ironwood issued \$165,000 of Sewage Disposal System Revenue Bonds, Series 2000, to be used to finance improvements to its sewage disposal system.

The bonds are issued under the authority of Act 94, Public Acts of Michigan, 1933, as amended. The bonds are payable solely from revenues generated by the Sewage Disposal System Fund. All of the bonds were purchased by Raymond James & Associates. National City Bank of Michigan/Illinois is acting as the paying agent. Bonds maturing in year 2010 and thereafter may be redeemed at the option of the Issuer, on any interest payment date on or after April 1, 2009.

A summary of the annual principal and interest requirements to maturity follows:

Year ending <u>June 30,</u>	Rate of <u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	6.00%	\$ 5,000	\$ 9,955	\$ 14,955
2006	6.00%	5,000	9,655	14,655
2007	6.00%	5,000	9,355	14,355
2008	6.00%	5,000	9,055	14,055
2009	6.00%	5,000	8,755	13,755
2010	6.00%	5,000	8,455	13,455
2011	6.00%	5,000	8,155	13,155
2012	6.00%	5,000	7,855	12,855
2013	6.00%	10,000	7,555	17,555
2014	6.00%	15,000	6,955	21,955
2015	6.00%	15,000	6,055	21,055
2016	6.00%	15,000	5,155	20,155
2017	6.05%	15,000	4,255	19,255
2018	6.05%	15,000	3,348	18,348
2019	6.10%	20,000	2,440	22,440
2020	6.10%	<u>20,000</u>	<u>1,220</u>	<u>21,220</u>
		<u>\$ 165,000</u>	<u>\$ 108,223</u>	<u>\$ 273,223</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Water Supply System Revenue Bond, Series 2000

On April 1, 2000, City of Ironwood issued \$115,000 of Water Supply System Revenue Bonds, Series 2000, to be used to finance improvements to its water supply system.

The bonds are issued under the authority of Act 194, Public Acts of Michigan, 1933, as amended. The bonds are payable solely from revenues generated by the Water Supply System Fund. All of the bonds were purchased by Raymond James & Associates. National City Bank of Michigan/Illinois is acting as the paying agent. Bonds maturing in year 2010 and thereafter may be redeemed at the option of the Issuer, on any interest payment date on or after April 1, 2009.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	6.00%	\$ 5,000	\$ 5,790	\$ 10,790
2006	6.00%	5,000	5,490	10,490
2007	6.00%	5,000	5,190	10,190
2008	6.00%	5,000	4,890	9,890
2009	6.00%	5,000	4,590	9,590
2010	6.00%	5,000	4,290	9,290
2011	6.00%	5,000	3,990	8,990
2012	6.00%	5,000	3,690	8,690
2013	6.00%	5,000	3,390	8,390
2014	6.00%	5,000	3,090	8,090
2015	6.20%	5,000	2,790	7,790
2016	6.20%	5,000	2,480	7,480
2017	6.20%	5,000	2,170	7,170
2018	6.20%	10,000	1,860	11,860
2019	6.20%	10,000	1,240	11,240
2020	6.20%	<u>10,000</u>	<u>620</u>	<u>10,620</u>
		<u>\$ 95,000</u>	<u>\$ 55,560</u>	<u>\$ 150,560</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

1996 Water Supply System Revenue Bonds

On November 13, 1996, the City issued \$995,000 of Water Supply System Revenue Bonds to finance improvements to its water wellfield. The bonds are payable solely from revenues generated by the Water Utility Fund. All of the bonds were purchased by Bernardi Securities, Inc. National City Bank of Michigan/Illinois is acting as the paying agent. The City is accounting for these bonds in the Water Utility Fund.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	5.0%	\$ 35,000	\$ 42,555	\$ 77,555
2006	5.1%	35,000	40,788	75,788
2007	5.2%	40,000	38,855	78,855
2008	5.3%	40,000	36,755	76,755
2009	5.4%	45,000	34,480	79,480
2010	5.4%	45,000	32,050	77,050
2011	5.4%	50,000	29,485	79,485
2012	5.5%	70,000	26,210	96,210
2013	5.5%	75,000	22,222	97,222
2014	5.6%	80,000	17,920	97,920
2015	5.6%	85,000	13,300	98,300
2016	5.6%	95,000	8,260	103,260
2017	5.6%	<u>100,000</u>	<u>2,800</u>	<u>102,800</u>
		<u>\$ 795,000</u>	<u>\$ 345,680</u>	<u>\$ 1,140,680</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

1999 Water Supply System Revenue Bonds

On April 1, 1999, the City issued \$900,000 of Water Supply System Revenue Bonds to finance improvements to its water supply system. The bonds are payable solely from revenues generated by the Water Utility Fund. Funding for the bonds came from the Michigan Drinking Water Revolving Fund Loan Program. Bank One Trust Company is acting as the paying agent. The City is accounting for these bonds in the Water Utility Fund. The bonds bear an interest rate of 2.5%.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 40,000	\$ 17,875	\$ 57,875
2006	40,000	16,875	56,875
2007	40,000	15,875	55,875
2008	45,000	14,875	59,875
2009	45,000	13,750	58,750
2010	45,000	12,625	57,625
2011	45,000	11,500	56,500
2012	50,000	10,375	60,375
2013	50,000	9,125	59,125
2014	50,000	7,875	57,875
2015	50,000	6,625	56,625
2016	50,000	5,375	55,375
2017	55,000	4,125	59,125
2018	55,000	2,750	57,750
2019	<u>55,000</u>	<u>1,375</u>	<u>56,375</u>
	<u>\$ 715,000</u>	<u>\$ 151,000</u>	<u>\$ 866,000</u>

Economic Development Financing Agreement

On December 1, 1998, the City entered into an Economic Development Financing Agreement through the Michigan Jobs Commission to finance infrastructure improvements and to create new jobs in a designated Renaissance Zone. Total loan proceeds received as of June 30, 2003, were \$235,643. The agreement accrues interest at 5% per annum for a period of 10 years commencing February 1, 2005.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE (CONTINUED)

Economic Development Financing Agreement (Continued)

Quarterly payments of principal and interest will commence on February 1, 2005, and the agreement will be payable in full on January 31, 2015. The City has pledged all of its 1971 Public Act 40 Distributable Aid Payments (Revenue Sharing) as security for performance under the financing agreement.

The City will earn credits of \$5,000 for each qualifying new job created. The credits will be applied to accrued interest and principal. Maximum credits shall not exceed the loan amount plus accrued interest.

A preliminary summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 47,647	\$ 4,843	\$ 52,490
2006	15,875	9,106	24,981
2007	16,685	8,296	24,981
2008	17,534	7,447	24,981
2009	18,427	6,554	24,981
2010	19,366	5,615	24,981
2011	20,353	4,628	24,981
2012	21,390	3,591	24,981
2013	22,479	2,502	24,981
2014	23,625	1,356	24,981
2015	<u>12,262</u>	<u>228</u>	<u>12,490</u>
	<u>\$ 235,643</u>	<u>\$ 54,166</u>	<u>\$ 289,809</u>

Subsequent to June 30, 2004, the City was notified by the Michigan Jobs Commission that it will convert the entire \$235,643 from a loan to a grant. Upon final authorization, the City will record this as a grant revenue. At that time, there will be no debt service requirements.

Equipment Contracts Payable

Equipment contracts payable of \$107,429 included in liabilities of the Equipment Depot Fund consist of installment purchase contracts payable to a bank and various financing companies at rates of interest varying from 4.79% to 6%. The obligations are collateralized by security interests in equipment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Equipment Contracts Payable (Continued)

A summary of the annual principal and interest requirements to maturity follows:

Year ending June 30,	Principal	Interest	Total
2005	\$ 48,764	\$ 4,729	\$ 53,493
2006	21,538	2,610	24,148
2007	14,809	1,700	16,509
2008	15,655	854	16,509
2009	<u>6,663</u>	<u>215</u>	<u>6,878</u>
	<u>\$ 107,429</u>	<u>\$ 10,108</u>	<u>\$ 117,537</u>

Note Payable to Rural Development Services

The note payable included in liabilities of the Equipment Depot Fund consisted of a 4.75% note payable to Rural Development Services, Department of Agriculture, United States of America entered into on November 7, 2001. The note was issued pursuant to Act 99 of the Public Acts of Michigan of 1933, to purchase equipment. The United States of America has no security interest in the equipment purchased. The City pledged to levy ad valorem taxes on all taxable property in the City, together with other funds available, sufficient to pay principal and interest payments when due.

A summary of the annual principal and interest requirements to maturity follows:

Year ending June 30,	Principal	Interest	Total
2005	\$ 20,000	\$ 13,110	\$ 33,110
2006	20,000	12,160	32,160
2007	20,000	11,210	31,210
2008	20,000	10,260	30,260
2009	25,000	9,191	34,191
2010	25,000	8,004	33,004
2011	25,000	6,816	31,816
2012	25,000	5,629	30,629
2013	25,000	4,441	29,441
2014	25,000	3,254	28,254
2015	25,000	2,066	27,066
2016	<u>31,000</u>	<u>736</u>	<u>31,736</u>
	<u>\$ 286,000</u>	<u>\$ 86,877</u>	<u>\$ 372,877</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE (CONTINUED)

Promissory Notes Payable

The promissory notes payable to Northern Lights Revolving Loan Fund operated by the Michigan Technical Education Center (M-TEC) at Bay De Noc Community College included in liabilities of the City's governmental activities, and business-type activities consist of 2% notes payable used for energy improvements. The notes are payable in monthly installments of principal and interest. In addition to these payments, the City is required to remit to M-TEC, one-half of the realized energy savings from the improvements made, subject to a loan agreement.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 16,727	\$ 2,993	\$ 19,720
2006	17,065	2,655	19,720
2007	17,409	2,311	19,720
2008	17,760	1,960	19,720
2009	18,119	1,601	19,720
2010	18,485	1,235	19,720
2011	16,631	869	17,500
2012	13,817	576	14,393
2013	14,097	296	14,393
2014	<u>6,960</u>	<u>243</u>	<u>7,203</u>
	<u>\$ 157,070</u>	<u>\$ 14,739</u>	<u>\$ 171,809</u>

NOTE I - LITIGATION

There are several pending lawsuits in which the City is involved. The City attorney estimates that any potential claims against the City resulting from such litigation, which are not covered by insurance, would not materially affect the financial statements of the City.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE J - OPERATING LEASES

The City paid \$6,661 during the year for equipment rental under operating leases. Minimum future lease obligations under the terms of these leases are:

Year ending June 30, 2005	<u>\$ 2,221</u>
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The City is a lessor of building space in various buildings located within its boundaries. All leases are considered to be operating leases.

NOTE K - PROPERTY TAX ADMINISTRATION FEE

In accordance with Public Act 503 of 1982, the City has established a subsidiary ledger to separately account for costs incurred in the collection, assessment and review of property tax levies. For the year ended June 30, 2004, costs incurred totaled \$61,690, and revenues from charging the administrative fee were \$48,349. Cumulative costs since inception of the subsidiary ledger have exceeded cumulative fees by \$401,833.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE L - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables at June 30, 2004, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
General	\$ 62,886	Community Development Block Grant	\$ 220
		Neighborhood Preservation Program	3,435
		Debt Service Fund	250
		Water Utility	17,385
		Sewer Utility	8,154
		Pat O'Donnell Civic Center	31,985
		Internal Service	<u>1,457</u>
	<u>\$ 62,886</u>		<u>\$ 62,886</u>
Major Street	369,945	General	369,945
Local Street	54,091	General	54,091
Drug Enforcement	4,257	General	4,257
		Downtown Ironwood Development Authority	20,189
Economic Development	20,189	Sewer Utility	153,299
Water Utility	153,299	Major Street	\$ 118,004
Internal Service	\$ 358,301	Local Street	53,517
		Cemetery	33,339
		Water Utility	123,486
		Sewer Utility	<u>29,955</u>
	<u>\$ 358,301</u>		<u>\$ 358,301</u>
	<u>\$ 1,022,968</u>		<u>\$ 1,022,968</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE M - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004, were made from the General Fund to Special Revenue Funds in the net amount of \$491,733 and to the Pat O'Donnell Civic Center Operations Fund for \$2,000.

NOTE N - RESTRICTION OF NET ASSETS

Following is a summary of restricted net assets for individual funds at June 30, 2004:

<u>Fund</u>	<u>Purpose</u>	<u>Amount of Restriction</u>
<u>Primary Government</u>		
Governmental Activities:		
Special Revenue Fund -		
Major Street Fund	Debt service	\$ 24,911
Debt Service Fund	Debt service	<u>54,928</u>
		\$ 79,839
Business-type Activities:		
Water Utility	Bond reserve and redemption	\$ 226,319
Sewer Utility	Bond reserve and redemption	<u>25,681</u>
		\$ 252,000
		<u>\$ 331,839</u>

Following is a summary of reserved fund balance for individual governmental funds for purposes of the Combined Balance Sheet:

<u>Fund</u>	<u>Purpose</u>	<u>Amount of Reserve</u>
<u>Primary Government</u>		
Governmental Activities:		
Special Revenue Fund:		
Library Fund	Building	\$ 65,131
Economic Development Fund	Long-term portion of notes receivable	373,841
Major Street Fund	Debt service	24,911
Debt Service Fund	Debt service	<u>54,928</u>
		<u>\$ 518,811</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE O - SEGMENT INFORMATION FOR BUSINESS-TYPE ACTIVITIES

The City maintains three Enterprise Funds. Services provided include water, sewer and garbage and civic center operations. Segment information not presented in the basic financial statements for the year ended June 30, 2004, was as follows:

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Pat O'Donnell Civic Center Operations</u>
Tax revenues	\$ 0	\$ 0	\$ 0
Current capital contributions	0	0	0
Land, buildings and equipment:			
Additions	188,569	47,538	145,764
Deletions	0	0	0

NOTE P - INVESTMENT IN GOGEBIC-IRON WASTEWATER AUTHORITY

Gogebic-Iron Wastewater Authority (the Authority) was organized in 1983 to finance and construct a regional wastewater treatment plant and sewer system (the Project). Members of the Authority are City of Ironwood and two local townships. Construction of the Project was financed principally by federal and state grants and loans to the Authority. The participating local units of government provided financing in the forms of pass-through of federal and state grants and loans and direct investment. At June 30, 2004, the City's investment in the Authority consisted of the following:

Pass-through of state grants to Authority	\$ 427,303
Share of costs not eligible for funding by federal and state grants and organizational expenses paid to Authority	1,553,866
Cumulative share of net income of Authority	<u>648,347</u>
	<u>\$ 2,629,516</u>

The City is accounting for its investment in the Authority by the equity method in the Sewer Utility Fund. The cumulative share of net income of the Authority includes the City's share of net income through June 30, 2003. Upon the adoption of GASB Statement No. 34 by the Authority during the year ended June 30, 2004, the City has determined the change in the Authority's net assets does not reflect a realistic method of increasing or decreasing its investment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE P - INVESTMENT IN GOGEBIC-IRON WASTEWATER AUTHORITY (CONTINUED)

The Authority owns the Project; however, the Project is being operating and managed by an autonomous Gogebic-Iron Wastewater Board (the Board) which is comprised of members of the Authority and City of Hurley, Wisconsin. Upon payment in full of revenue bonds issued by the Authority, title to the wastewater treatment plant will pass from the Authority to the Board. Each member of the Board will then own, in common, an undivided interest therein. Title to the collection sewer system lying within the boundaries of each local governmental unit will pass to that unit.

Condensed financial information as of and for the year ended June 30, 2004, from the Authority's most recently audited financial statements, which are available at the Authority's administrative office at 700 West Cloverland Drive, Ironwood, Michigan, follows:

	<u>Gogebic-Iron Wastewater Authority</u>	<u>Board</u>	<u>Totals (Memorandum Only)</u>
Total assets	\$ 17,725,586	\$ 152,466	\$ 17,878,052
Total liabilities	\$ 4,791,803	\$ 152,466	\$ 4,944,269
Net assets	\$ 12,933,783	\$ 0	\$ 12,933,783
Operating revenues	\$ 1,355,089	\$ 704,171	\$ 2,059,260
Operating expenses	<u>1,636,912</u>	<u>704,253</u>	<u>2,341,165</u>
	\$ (281,823)	\$ (82)	\$ (281,905)
Interest charges, net of investment earnings	<u>(222,994)</u>	<u>82</u>	<u>(222,912)</u>
Change in Net Assets	\$ (504,817)	\$ 0	\$ (504,817)
Net assets at July 1, 2003	<u>13,438,600</u>	<u>0</u>	<u>13,438,600</u>
NET ASSETS AT JUNE 30, 2004	\$ 12,933,783	\$ 0	\$ 12,933,783

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q - SUMMARY OF 2003 TAX LEVY

Details of the City's 2003 property tax levy (excluding industrial facilities tax) are as follows:

City:		
General Fund	\$	1,292,716
Library Fund		64,272
Public Safety Retirement System Fund		154,841
Debt Service Fund		161,576
Downtown Ironwood Development Authority		<u>11,286</u>
	Total City Taxes	\$ 1,684,691
School		807,510
County		740,590
State Education Tax		336,649
Intermediate School District		<u>229,574</u>
	Total Levy	\$ <u>3,799,014</u>
TAXABLE VALUATION		\$ <u>67,329,781</u>
Tax rate per \$1,000 valuation:		
General Fund	\$	19.2000
Library Fund		0.9549
Public Safety Retirement System Fund		2.3000
Debt Service Fund		<u>2.4000</u>
		\$ <u>24.8549</u>

NOTE R - RETIREMENT SYSTEMS

The City of Ironwood administers two defined benefit pension plans, the Retirement System and Public Safety Retirement System. Each plan's assets may be used only for the payment of benefits to the members of that plan, in accordance with the terms of the plan.

Summary of Significant Accounting Policies

Basis of Accounting - City of Ironwood's retirement financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due, and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Method Used to Value Investments - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 2003, the date of the latest actuarial valuation:

	Retirement System	Public Safety Retirement System
Retirees and beneficiaries receiving benefits	57	25
Terminated plan members entitled to but not yet receiving benefits	2	0
Active plan members:		
Vested	26	5
Nonvested	24	9
Total	109	39
Number of participating employers	1	1

Retirement System Pension Plan

Plan Description - Retirement System is a single-employer defined benefit pension plan that covers the employees of the City of Ironwood, including all departments and agencies, other than Public Safety personnel. Retirement System provides retirement, disability, health insurance and death benefits to plan members and their beneficiaries. City ordinance assigns the authority to establish and amend the benefit provisions of the plan to the City Commission.

Contributions - Plan members are required to contribute 3% of the first \$4,200 of annual compensation plus 5% of compensation in excess of \$4,200. The City is required to contribute at an actuarially determined rate and contributed \$139,348 for the year ended June 30, 2004. Administrative costs of Retirement System are financed through contributions and investment earnings.

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

Retirement System Pension Plan (Continued)

All City full-time employees, other than Public Safety personnel, are eligible to participate in the System. Employees who retire at or after age 60 with 10 years of credited service or age 55 with 20 or more years of service are entitled to an annual retirement benefit, payable monthly for life, equal to total service years times 2.25% of the final average compensation. Effective for employees who retire after January 1, 1990, the annual retirement benefit is equal to total service years times 2.25% of the final average compensation. Final average compensation is the average of the employee's highest five consecutive years out of the last ten.

Benefits fully vest on reaching 10 years of service. The System also provides death and disability benefits. Benefits are established by State statute. Employees are eligible for deferred retirement upon completion of 25 years of credited service or upon attaining age 50 with 10 years of credited service. Benefits begin at age 65. Employees are eligible for a duty disability retirement provided workers' compensation is paid. Minimum benefit is 15% of final average compensation. Employees are eligible for a non-duty disability retirement upon completion of 10 years of credited service. Benefits are computed the same as for a regular retirement. Death benefits are payable upon attaining age 55 with 10 years of credited service. Benefits are computed the same as for a regular retirement but actuarially reduced in accordance with a joint and survivor election.

Public Safety Retirement System Pension Plan

Plan Description - Public Safety Retirement System is a single-employer defined benefit pension plan that covers Public Safety personnel. Public Safety Retirement System provides retirement, disability, health insurance and death benefits to plan members. City ordinance assigns the authority to establish and amend benefit provisions to the City Commission.

The Public Safety Retirement System Fund's eligibility and vesting provisions are in accordance with State of Michigan Public Act 345, PA of 1937. Employees are eligible to receive retirement benefits at age 50 with 25 or more years of service or age 60, regardless of service. The annual retirement benefit is equal to 2.5% of the employee's final average compensation (average of highest three years out of the final five years) times number of years of service.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

Public Safety Retirement System Pension Plan (Continued)

Benefits fully vest on reaching ten years of service. The System also provides death and disability benefits. Benefits are established by State statute. Employees are eligible for deferred retirement upon completion of 10 years of credited service. Benefits begin on the date retirement would have occurred had the member remained in employment. Employees are eligible for a duty disability retirement payable upon the total and permanent disability in the line of service. Benefits are 50% of final average compensation. Employees are eligible for a non-duty disability retirement upon completion of 5 or more years of credited service. Benefits are 1.5% of final average compensation times years of credited service. Death benefits are payable to employees' survivors upon the death of a retired member receiving a pension based upon actuarially determined amounts. The System provides paid health insurance coverage to all members, up to age 65, retiring on or after January 1, 1990.

Two Public Safety employees took advantage of an early retirement plan offered for a limited period during the year ended June 30, 1997. The member must have had at least 20 years of service. Retirement compensation for those electing the program was calculated based on an average final compensation multiplier of 2.5%, and a final average compensation based on the best 3 of the last 5 years of service. The City will pay for the health insurance benefits until the member attains the age of 50, at which time the health insurance benefits program then provided by the Retirement System takes effect.

Contributions - Plan members are required to contribute 5% of their annual covered salary if hired on or before July 1, 1995. Employees hired after July 1, 1995, are required to contribute 9% of their salary. The City is required to contribute at an actuarially determined rate and contributed \$155,986 for the year ended June 30, 2004. Administrative costs of Public Safety Retirement System are financed through contributions and investment earnings.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) --Entry Age (b)	(Overfunded) Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	(AAL) UAAL as a Percentage of Covered Payroll ((b - a)/c)
RETIREMENT SYSTEM						
June 30, 2001	\$6,566,989	\$7,400,004	\$ 833,015	89%	\$1,670,857	50%
June 30, 2002	6,132,926	6,602,193	469,267	93	1,522,600	31
June 30, 2003	6,088,814	7,075,755	986,941	86	1,591,565	62
PUBLIC SAFETY RETIREMENT SYSTEM						
June 30, 2001	\$5,628,578	\$6,793,013	\$ 1,164,435	83%	\$ 533,319	218%
June 30, 2002	5,370,245	6,814,112	1,443,867	79	573,210	252
June 30, 2003	5,178,668	6,494,723	1,316,055	80	549,091	240

SCHEDULES OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Retirement System		Public Safety Retirement System	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2001	\$ 10,485	100%	\$126,808	100%
2002	-0-	100	132,034	100
2003	101,121	100	165,333	100

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	<u>Retirement System</u>	<u>Public Safety Retirement System</u>
Valuation date	June 30, 2003	June 30, 2003
Actuarial cost method	Individual entry age	Individual entry age
Amortization method	Level percent closed (accumulated gains and losses amortized over open period)	Level percent closed (accumulated gains and losses amortized over open period)
Remaining amortization period	Varies (10 years for gains and losses)	Varies (10 years for gains and losses)
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return *	7%	7%
Projected salary increases *	8% - 4.2%	8% - 4.2%
* Includes inflation at	4%	4%
Cost-of-living adjustments	None	None

NOTE S - POST-EMPLOYMENT HEALTH BENEFITS

Public Safety Employees

The City provides post-retirement health care benefits, in accordance with an early retirement plan offered to Public Safety employees during the year ended June 30, 1996, to employees with at least 20 years of service. The City will pay for 100 percent of health care premiums until the member attains the age of 50, at which time the health care premiums are then provided by the Public Safety Retirement System. At June 30, 2004, no retirees met those eligibility requirements.

Expenditures for these post-retirement health care benefits are accounted for on the modified accrual basis in the General Fund. During the year ended June 30, 2004, expenditures of \$-0- were recognized by the City.

No assets have been set aside to finance future payments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE S - POST-EMPLOYMENT HEALTH BENEFITS (CONTINUED)

Employees Covered by Retirement System

As part of the pension benefits described in Note R, the City provides post-retirement health care benefits in accordance with a resolution adopted by the City Commission, to all employees who retire from the City, up to age 65, retiring prior to March 8, 2004, under the following terms. Employees who retire on or after attaining age 55 but before attaining age 60 shall be eligible for retiree only coverage and employees who retire on or after attaining age 60 shall be eligible for retiree coverage and coverage of a spouse to whom the retiree is married on the date of his or her retirement from the City. Employees hired on or after March 8, 2004, will not be eligible for this coverage. The City contributions are financed on an actuarially determined basis through annual contributions to the Retirement System Fund and Public Safety Retirement System Fund and are included in the financial statements as part of retirement expenditures, separately labeled as post-employment health care benefits. Separate financial statements are not prepared for the post-employment health benefits portion of the Retirement Systems. The same significant actuarial assumptions, accounting policies and methods used to value investments are used to determine the City's contributions as explained in Note R.

Eligible membership consisted of the following at June 30, 2003, the date of the latest actuarial valuation:

	<u>Retirement System</u>	<u>Public Safety Retirement System</u>
Retirees and beneficiaries receiving benefits	7	9
Terminated plan members entitled to but not yet receiving benefits	2	0
Active plan members	<u>52</u>	<u>19</u>
	<u>61</u>	<u>28</u>

The City of Ironwood is required to provide periodic contributions to the plans at actuarially determined rates. Plan members are not required to contribute to the plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE S - POST-EMPLOYMENT HEALTH BENEFITS (CONTINUED)

Employees Covered by Retirement System (Continued)

Following is a summary of financial information pertaining to the plans for the year ended June 30, 2004:

	Retirement System	Public Safety Retirement System
General property taxes		\$ 77,736
Employer contributions	\$ 76,526	
Contributions by employees over age 65	35,444	1,364
Investment earnings		8,937
Health care benefits paid	<u>(112,362)</u>	<u>(152,410)</u>
Net decrease in net plan assets held in trust	\$ <u>(392)</u>	\$ <u>(64,373)</u>

Investment earnings are credited to the plans based on an average investment earnings of 7%.

NOTE T - DEFERRED COMPENSATION PLANS

The City offers its employees a choice of several deferred compensation plans created in accordance with Internal Revenue Code Section 457. The Plans are available to substantially all full-time employees and permit employees to defer a portion of their salary until future years. Participation in the Plans is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the Plan and all income attributable to those amounts are, until paid or made available to the employee or other beneficiary, to be held in a trust for the exclusive benefit of plan participants and their beneficiaries.

Investments are managed by the Plans' trustees under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants. Plan trustees include Edward Jones & Company, PEBSCO and ICMA Retirement Corporation.

Because the City does not have an established trust agreement with the Plan trustees, does not provide investment advice and does not administer the Plan, the City has not established a fiduciary relationship with the Plan. Therefore, the Plan assets are not included in the financial statements of the City.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE U - RISK MANAGEMENT

Risks of Loss

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims and workers' compensation claims and participates as a member in the Michigan Municipal Risk Management Authority (MMRMA) for claims relating to general liability, excess liability, auto liability, truck line liability, errors and omissions and physical damage to equipment, buildings and contents.

The MMRMA operates as a public entity risk-sharing pool for local units in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. The City is sharing risk with the other members of the MMRMA and has a self-insurance retention, excess of deductibles, of up to \$75,000. The deductible is \$250 per occurrence for auto, property and crime losses. MMRMA provides, after the self-insurance retention, reinsurance up to \$5,000,000 of occurrence-based casualty coverage and property coverage for each incident by internally assuming risks and reinsuring risks through commercial companies.

Share of Losses

The City's liabilities for its share of losses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities can include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. The City estimates that the potential unpaid and unreported claims do not substantially exceed the amount of self-insurance retention reserves available to pay claims.

The City carries commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

REQUIRED
SUPPLEMENTAL
INFORMATION

BUDGETARY COMPARISON SCHEDULE -

CITY OF

Year ended

	General Fund		
	Original Budget	Final Budget	Actual
Revenues:			
Taxes	\$ 1,361,000	\$ 1,361,000	\$ 1,356,820
Licenses and permits	24,500	24,500	28,432
State grants	986,000	938,000	960,573
Federal grants	75,000	247,000	321,486
Contributions from local units			
Fines and forfeits			
Charges for services	90,150	105,150	114,268
Interest and rents	125,700	125,700	115,204
Other revenues	27,500	42,500	75,691
Total Revenues	\$ 2,689,850	\$ 2,843,850	\$ 2,972,474
Expenditures:			
Current expenditures:			
Legislative	\$ 28,700	\$ 34,700	\$ 32,374
General government	559,717	547,717	545,552
Public safety	1,142,808	1,184,678	1,178,305
Public works	101,700	401,848	505,449
Recreation and culture	122,300	114,800	95,195
Health and welfare	133,426	128,408	125,169
Other functions	39,385	57,885	60,162
Capital outlay	58,000	58,000	72,064
Debt service	66,275	66,275	62,887
Total Expenditures	\$ 2,252,311	\$ 2,594,311	\$ 2,677,157
Excess (Deficiency) of Revenues Over Expenditures	\$ 437,539	\$ 249,539	\$ 295,317
Other financing sources (uses):			
Operating transfers in (out)	(437,539)	(424,539)	(493,733)
Proceeds from borrowing			14,550
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 0	\$ (175,000)	\$ (183,866)
Fund balance at July 1, 2003	958,704	958,704	958,704
FUND BALANCE AT JUNE 30, 2004	\$ 958,704	\$ 783,704	\$ 774,838

The accompanying notes are an integral part of the financial statements.

GENERAL FUND AND MAJOR STREET FUND

IRONWOOD, MICHIGAN

June 30, 2004

<u>Major Street Fund</u>		
<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
\$ 677,000	677,000	689,827
460,311	460,311	511,191
		155
		<u>1,019</u>
\$ 1,137,311	\$ 1,137,311	\$ 1,202,192
\$ 522,100	\$ 522,100	\$ 568,416
56,500	56,500	60,190
550,000	570,000	647,719
<u>87,000</u>	<u>87,000</u>	<u>87,035</u>
\$ <u>1,215,600</u>	\$ <u>1,235,600</u>	\$ <u>1,363,360</u>
\$ (78,289)	\$ (98,289)	\$ (161,168)
78,289	98,289	186,079
\$ 0	\$ 0	\$ 24,911
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 24,911</u>

OTHER
FINANCIAL
INFORMATION

COMBINING BALANCE SHEET - GOVERNMENTAL FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2004

	General Fund	Special Revenue Funds	Debt Service Fund	Total
ASSETS				
Cash and cash equivalents	\$ 619,156	\$ 377,632	\$ 52,842	\$ 1,049,630
Investments		594,597		594,597
Receivables (net, where applicable, of allowances for uncollectibles):				
Taxes	50,185	2,151	2,336	54,672
Accounts	17,033	66,665		83,698
State of Michigan	411,447			411,447
Notes receivable		734,173		734,173
Other	33,434			33,434
Due from other funds	62,886	448,482		511,368
Inventory	24,623			24,623
Prepaid expenses	67,117			67,117
	<u>\$ 1,285,881</u>	<u>\$ 2,223,700</u>	<u>\$ 55,178</u>	<u>\$ 3,564,759</u>
LIABILITIES AND FUND BALANCE				
Accounts payable	\$ 70,876	\$ 58,741		\$ 129,617
Due other funds	428,292	228,704	\$ 250	657,246
Undistributed tax collections	11,875			11,875
Deferred revenues		578,155		578,155
Total Liabilities	\$ 511,043	\$ 865,600	\$ 250	\$ 1,376,893
Fund balance:				
Reserved		\$ 463,883	\$ 54,928	\$ 518,811
Unreserved	<u>\$ 774,838</u>	<u>894,217</u>		<u>1,669,055</u>
Total Fund Balance	<u>\$ 774,838</u>	<u>\$ 1,358,100</u>	<u>\$ 54,928</u>	<u>\$ 2,187,866</u>
	<u>\$ 1,285,881</u>	<u>\$ 2,223,700</u>	<u>\$ 55,178</u>	<u>\$ 3,564,759</u>

The accompanying notes are an integral part of the financial statements.

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Revenues:				
Taxes	\$ 1,356,820	\$ 76,902	\$ 162,770	\$ 1,596,492
Licenses and permits	28,432			28,432
State grants	960,573	929,181		1,889,754
Federal grants	321,486	846,089		1,167,575
Contributions from local units		13,300		13,300
Fines and forfeits		62,869		62,869
Charges for services	114,268	78,529		192,797
Interest and rents	115,204	9,963	768	125,935
Other revenues	<u>75,691</u>	<u>112,292</u>		<u>187,983</u>
Total Revenues	\$ 2,972,474	\$ 2,129,125	\$ 163,538	\$ 5,265,137
Expenditures:				
Current expenditures:				
Legislative	\$ 32,374			\$ 32,374
General government	545,552	\$ 114,986		660,538
Public safety	1,178,305	39,515		1,217,820
Public works	505,449	996,458		1,501,907
Recreation and culture	95,195	141,848		237,043
Health and welfare	125,169	350,947		476,116
Other functions	60,162	191,844	\$ 650	252,656
Capital outlay	72,064	675,849		747,913
Debt service	<u>62,887</u>	<u>87,301</u>	<u>162,278</u>	<u>312,466</u>
Total Expenditures	\$ 2,677,157	\$ 2,598,748	\$ 162,928	\$ 5,438,833
Excess (Deficiency) of Revenues Over Expenditures	\$ 295,317	\$ (469,623)	\$ 610	\$ (173,696)
Other financing sources (uses) -				
Operating transfers in (out)	\$ (493,733)	\$ 491,733		\$ (2,000)
Proceeds from borrowing	<u>14,550</u>	<u>4,000</u>		<u>18,550</u>
	<u>\$ (479,183)</u>	<u>\$ 495,733</u>	<u>\$ 0</u>	<u>\$ 16,550</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ (183,866)	\$ 26,110	\$ 610	\$ (157,146)
Fund balance at July 1, 2003	<u>958,704</u>	<u>1,331,990</u>	<u>54,318</u>	<u>2,345,012</u>
FUND BALANCE AT JUNE 30, 2004	<u>\$ 774,838</u>	<u>\$ 1,358,100</u>	<u>\$ 54,928</u>	<u>\$ 2,187,866</u>

The accompanying notes are an integral part of the financial statements.

BALANCE SHEET - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

June 30, 2004

ASSETS

Cash		\$	619,156
Receivables:			
Delinquent taxes	\$	89,938	
State of Michigan		411,447	
Special assessments		6,001	
Advances to Housing Commission		33,434	
Sundry		<u>17,033</u>	
	\$	557,853	
Less allowances for uncollectible accounts		<u>(45,754)</u>	512,099
Due from other funds			62,886
Inventory			24,623
Prepaid expenses			<u>67,117</u>
			<u>\$ 1,285,881</u>

LIABILITIES AND FUND BALANCE

Liabilities:			
Accounts payable		\$	70,876
Undistributed tax collections			11,875
Due other funds			<u>428,292</u>
	Total Liabilities	\$	511,043
Unreserved fund balance			<u>774,838</u>
			<u>\$ 1,285,881</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES - ESTIMATED AND ACTUAL - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

	Estimated Revenue	Actual Revenue	Variance Favorable (Unfavorable)
Taxes:			
Property taxes	\$ 1,310,000	\$ 1,302,269	\$ (7,731)
Property tax administrative fees	45,000	48,349	3,349
Payment in lieu of taxes	<u>6,000</u>	<u>6,202</u>	<u>202</u>
	\$ 1,361,000	\$ 1,356,820	\$ (4,180)
City licenses and permits	24,500	28,432	3,932
State grants:			
Liquor licenses	\$ 6,000	\$ 6,403	\$ 403
Sales tax	932,000	922,782	(9,218)
Disaster grant	<u></u>	<u>31,388</u>	<u>31,388</u>
	\$ 938,000	\$ 960,573	\$ 22,573
Federal grants:			
FEMA Disaster grant	\$ 247,000	\$ 193,998	\$ (53,002)
FEMA Public Safety grant		2,430	2,430
USDA Natural Resources grant		26,850	26,850
Department of Transportation grant	<u></u>	<u>98,208</u>	<u>98,208</u>
	\$ 247,000	\$ 321,486	\$ 74,486
Charges for services - departmental fees and services:			
Public safety	\$ 15,000	\$ 31,844	\$ 16,844
Tourist park	22,000	21,617	(383)
Administration services	55,150	45,113	(10,037)
Sale of supplies and services	<u>13,000</u>	<u>15,694</u>	<u>2,694</u>
	\$ 105,150	\$ 114,268	\$ 9,118
Interest and rents:			
Interest earned	\$ 10,000	\$ 5,424	\$ (4,576)
Rentals and leases:			
Memorial building rentals	41,200	35,495	(5,705)
Garage rentals	66,000	61,500	(4,500)
Other	<u>8,500</u>	<u>12,785</u>	<u>4,285</u>
	\$ 125,700	\$ 115,204	\$ (10,496)

STATEMENT OF REVENUES - ESTIMATED AND ACTUAL - GENERAL FUND (CONTINUED)

	Estimated Revenue	Actual Revenue	Variance Favorable (Unfavorable)
Other revenues:			
Refunds and rebates	\$ 25,000	\$ 43,817	\$ 18,817
Sale of property and equipment		7,560	7,560
Special assessment	7,500	7,332	(168)
Miscellaneous	<u>10,000</u>	<u>16,982</u>	<u>6,982</u>
	<u>\$ 42,500</u>	<u>\$ 75,691</u>	<u>\$ 33,191</u>
TOTAL REVENUES	\$ 2,843,850	\$ 2,972,474	\$ 128,624
Other financing source - proceeds from borrowing		<u>14,550</u>	<u>14,550</u>
	<u>\$ 2,843,850</u>	<u>\$ 2,987,024</u>	<u>\$ 143,174</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF APPROPRIATIONS AND EXPENDITURES - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

	Appropriations	Expenditures	Variance Favorable (Unfavorable)
Legislative - City Commission	\$ 34,700	\$ 32,374	\$ 2,326
General government:			
City manager	\$ 91,985	\$ 94,340	\$ (2,355)
Elections	3,500	2,738	762
Financial administration	109,639	109,440	199
Property tax administration	22,000	21,906	94
City assessor	38,622	38,062	560
Computer department	12,700	11,514	1,186
City clerk	97,237	95,286	1,951
Actuarial services	17,000	16,880	120
Board of review	2,375	1,722	653
City hall and grounds	<u>152,659</u>	<u>153,664</u>	<u>(1,005)</u>
	\$ 547,717	\$ 545,552	\$ 2,165
Public safety:			
Public safety department	\$ 1,156,878	\$ 1,147,937	\$ 8,941
Volunteer fire department	<u>27,800</u>	<u>30,368</u>	<u>(2,568)</u>
	\$ 1,184,678	\$ 1,178,305	\$ 6,373
Public works:			
Sidewalks	\$ 750	\$ 1,267	\$ (517)
Street lighting	84,000	81,756	2,244
Sanitation	27,200	26,225	975
Flooding	240,000	239,484	516
Erosion control	34,898	35,087	(189)
Bridges	<u>15,000</u>	<u>121,630</u>	<u>(106,630)</u>
	\$ 401,848	\$ 505,449	\$ (103,601)
Recreation and culture - parks and recreation	114,800	95,195	19,605
Health and welfare:			
Community development	\$ 62,528	\$ 59,263	\$ 3,265
Code enforcement	<u>65,880</u>	<u>65,906</u>	<u>(26)</u>
	\$ 128,408	\$ 125,169	\$ 3,239

STATEMENT OF APPROPRIATIONS AND EXPENDITURES - GENERAL FUND (CONTINUED)

	Appropriations	Expenditures	Variance Favorable (Unfavorable)
Other functions:			
Insurance and bonds	\$ 24,000	\$ 22,885	\$ 1,115
Labor relations	12,885	15,580	(2,695)
Contingencies	<u>21,000</u>	<u>21,697</u>	<u>(697)</u>
	\$ 57,885	\$ 60,162	\$ (2,277)
Capital outlay:			
City manager		\$ 298	\$ (298)
Financial administration		127	(127)
City clerk		1,424	(1,424)
Computer department		1,010	(1,010)
City hall and grounds	\$ 13,000	17,738	(4,738)
Public safety department	35,000	45,331	(10,331)
Parks and recreation	<u>10,000</u>	<u>6,136</u>	<u>3,864</u>
	\$ 58,000	\$ 72,064	\$ (14,064)
Debt service:			
Bond principal retirement	\$ 39,000	\$ 39,383	\$ (383)
Interest charges	<u>27,275</u>	<u>23,504</u>	<u>3,771</u>
	\$ 66,275	\$ 62,887	\$ 3,388
Total Expenditures	\$ 2,594,311	\$ 2,677,157	\$ (82,846)
Other financing uses - operating transfers out:			
Major Street Fund	\$ 78,289	\$ 166,079	\$ (87,790)
Local Street Fund	269,650	255,905	13,745
Cemetery Fund	56,750	51,377	5,373
Building Inspection Fund	17,850	18,372	(522)
Pat O'Donnell Civic Center Operations Fund	<u>2,000</u>	<u>2,000</u>	
	\$ 424,539	\$ 493,733	\$ (69,194)
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 3,018,850</u>	<u>\$ 3,170,890</u>	<u>\$ (152,040)</u>

The accompanying notes are an integral part of the financial statements.

COMBINING BALANCE SHEET -

CITY OF

June 30,

	Major Street Fund	Local Street Fund	Library Fund	Downtown Ironwood Development Authority	Community Development Block Grant Fund
ASSETS					
Cash and cash equivalents	\$ 24,911		\$ 38,719	\$ 7,327	\$ 4,574
Investments			65,131		
Receivables:					
Accounts			66,358		
Delinquent property taxes			2,151		
Notes receivable				20,696	
Due from other funds	<u>369,945</u>	<u>\$ 54,091</u>			
	<u>\$ 394,856</u>	<u>\$ 54,091</u>	<u>\$ 172,359</u>	<u>\$ 28,023</u>	<u>\$ 4,574</u>

LIABILITIES AND FUND BALANCE

Liabilities:					
Accounts payable	\$ 16,431	\$ 574	\$ 16,850	\$ 225	\$ 3,989
Due other funds	118,004	53,517		20,189	220
Deferred revenues	<u>235,510</u>				<u>365</u>
	\$ 369,945	\$ 54,091	\$ 16,850	\$ 20,414	\$ 4,574
Fund balance:					
Reserved:					
Construction			\$ 65,131		
Debt service	\$ 24,911				
Long-term portion of notes receivable					
Unreserved			<u>90,378</u>	<u>\$ 7,609</u>	
	<u>\$ 24,911</u>		<u>\$ 155,509</u>	<u>\$ 7,609</u>	
	<u>\$ 394,856</u>	<u>\$ 54,091</u>	<u>\$ 172,359</u>	<u>\$ 28,023</u>	<u>\$ 4,574</u>

The accompanying notes are an integral part of the financial statements.

SPECIAL REVENUE FUNDS

IRONWOOD, MICHIGAN

2004

Economic Development Fund	Housing Development Fund	Cemetery Trust Fund	Drug Enforcement Fund	Volunteer Fire Department Fund	Neighborhood Preservation Program Fund	Building Inspections Fund	Totals
\$ 241,647		\$ 8,717 529,466	\$ 4,900	\$ 5,601	\$ 41,236		\$ 377,632 594,597
		307					66,665
393,477	\$ 320,000						2,151
20,189			4,257			\$ 0	734,173
							448,482
<u>\$ 655,313</u>	<u>\$ 320,000</u>	<u>\$ 538,490</u>	<u>\$ 9,157</u>	<u>\$ 5,601</u>	<u>\$ 41,236</u>	<u>\$ 0</u>	<u>\$ 2,223,700</u>
		\$ 191			\$ 20,481		\$ 58,741
		33,339			3,435		228,704
	<u>\$ 320,000</u>	<u>4,960</u>			<u>17,320</u>		<u>578,155</u>
	\$ 320,000	\$ 38,490			\$ 41,236		\$ 865,600
							\$ 65,131
\$ 373,841							24,911
281,472		\$ 500,000	\$ 9,157	\$ 5,601	\$ 0	\$ 0	373,841
							894,217
<u>\$ 655,313</u>	<u>\$ 500,000</u>	<u>\$ 9,157</u>	<u>\$ 5,601</u>	<u>\$ 0</u>	<u>\$ 0</u>		<u>\$ 1,358,100</u>
<u>\$ 655,313</u>	<u>\$ 320,000</u>	<u>\$ 538,490</u>	<u>\$ 9,157</u>	<u>\$ 5,601</u>	<u>\$ 41,236</u>	<u>\$ 0</u>	<u>\$ 2,223,700</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND

CITY OF

Year ended

	Major Street Fund	Local Street Fund	Library Fund	Downtown Ironwood Development Authority	Community Development Block Grant Fund
Revenues:					
Taxes			\$ 64,747	\$ 12,155	
State grants	\$ 689,827	\$ 231,842	7,512		
Federal grants	511,191				\$ 65,340
Contributions from local units			13,300		
Fines and forfeits			62,869		
Charges for services		695	6,430		
Interest and investment earnings	155			799	
Other revenues	<u>1,019</u>	<u>228</u>	<u>17,119</u>	<u>1,065</u>	<u>27,661</u>
Total Revenues	\$1,202,192	\$ 232,765	\$ 171,977	\$ 14,019	\$ 93,001
Expenditures:					
Current:					
General government					
Public safety					
Public works	\$ 568,416	\$ 428,042			
Recreation and culture			\$ 141,848		
Health and welfare:					
Community development				\$ 12,495	
Housing rehabilitation					\$ 90,206
Other - Administrative and general	<u>60,190</u>	<u>60,628</u>			<u>2,795</u>
	\$ 628,606	\$ 488,670	\$ 141,848	\$ 12,495	\$ 93,001
Capital outlay	647,719		27,705		
Debt service:					
Principal	60,000		232		
Interest and fees	<u>27,035</u>		<u>34</u>		
Total Expenditures	<u>\$1,363,360</u>	<u>\$ 488,670</u>	<u>\$ 169,819</u>	<u>\$ 12,495</u>	<u>\$ 93,001</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (161,168)	\$ (255,905)	\$ 2,158	\$ 1,524	\$ 0
Other financing sources (uses) -					
Operating transfers in	186,079	255,905			
Operating transfers out				(7,000)	
Proceeds from borrowing			<u>4,000</u>		
Excess (Deficiency) of Revenues and Other Financing Sources (Uses) Over Expenditures	\$ 24,911	\$ 0	\$ 6,158	\$ (5,476)	\$ 0
Fund balance at July 1, 2003	<u>0</u>	<u>0</u>	<u>149,351</u>	<u>13,085</u>	<u>0</u>
FUND BALANCE AT JUNE 30, 2004	<u>\$ 24,911</u>	<u>\$ 0</u>	<u>\$ 155,509</u>	<u>\$ 7,609</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS

IRONWOOD, MICHIGAN

June 30, 2004

Economic Development Fund	Housing Development Fund	Cemetery Trust Fund	Drug Enforcement Fund	Volunteer Fire Department Fund	Neighborhood Preservation Program Fund	Building Inspections Fund	Totals
							\$ 76,902
							929,181
					\$ 269,558		846,089
							13,300
							62,869
		\$ 58,580				\$ 12,824	78,529
\$ 5,120		3,889					9,963
<u>3,400</u>		<u>1,140</u>		\$ 8,864	<u>51,496</u>	<u>300</u>	<u>112,292</u>
\$ 8,520		\$ 63,609		\$ 8,864	\$ 321,054	\$ 13,124	\$ 2,129,125
		\$ 114,986					\$ 114,986
			\$ 12	\$ 8,007		\$ 31,496	39,515
							996,458
							141,848
\$ 5,423							17,918
<u>3,000</u>					\$ 242,823		333,029
\$ 8,423		\$ 114,986	\$ 12	\$ 8,007	<u>65,231</u>		<u>191,844</u>
			425		\$ 308,054	\$ 31,496	\$ 1,835,598
							675,849
							60,232
							<u>27,069</u>
\$ 8,423		\$ 114,986	\$ 437	\$ 8,007	\$ 308,054	\$ 31,496	\$ 2,598,748
\$ 97		\$ (51,377)	\$ (437)	\$ 857	\$ 13,000	\$ (18,372)	\$ (469,623)
		51,377			7,000	18,372	518,733
					(20,000)		(27,000)
							<u>4,000</u>
\$ 97	\$ 0	\$ 0	\$ (437)	\$ 857	\$ 0	\$ 0	\$ 26,110
<u>655,216</u>	<u>0</u>	<u>500,000</u>	<u>9,594</u>	<u>4,744</u>	<u>0</u>	<u>0</u>	<u>1,331,990</u>
\$ 655,313	\$ 0	\$ 500,000	\$ 9,157	\$ 5,601	\$ 0	\$ 0	\$ 1,358,100

COMBINING STATEMENT OF NET

CITY OF

June 30,

	Water Utility	Sewer Utility	Pat O'Donnell Civic Center Operations	Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 265	\$ 116,186	\$ 200	\$ 116,651
Accounts receivable, less \$ 14,403 allowance for uncollectibles	109,253	88,725		197,978
Due from other funds	153,299			153,299
Inventories	<u>154,096</u>	<u>16,435</u>		<u>170,531</u>
Total Current Assets	\$ 416,913	\$ 221,346	\$ 200	\$ 638,459
Capital Assets:				
Land, buildings and equipment			\$ 1,170,904	\$ 1,170,904
Utility plant in service	<u>\$ 7,066,821</u>	<u>\$ 2,590,579</u>		<u>9,657,400</u>
	\$ 7,066,821	\$ 2,590,579	\$ 1,170,904	\$ 10,828,304
Less allowances for depreciation	<u>(3,180,483)</u>	<u>(877,117)</u>	<u>(544,919)</u>	<u>(4,602,519)</u>
	\$ 3,886,338	\$ 1,713,462	\$ 625,985	\$ 6,225,785
Construction in progress	<u>29,320</u>	<u>53,757</u>		<u>83,077</u>
	\$ 3,915,658	\$ 1,767,219	\$ 625,985	\$ 6,308,862
Other assets:				
Investment in Gogebic-Iron Wastewater Authority		\$ 2,629,516		\$ 2,629,516
Deferred loan charges and bond discount, net of amortization	\$ 40,694	7,364		48,058
Restricted cash:				
Bond reserve accounts	119,014	17,341		136,355
Bond redemption accounts	<u>107,305</u>	<u>8,340</u>		<u>115,645</u>
	<u>\$ 267,013</u>	<u>\$ 2,662,561</u>		<u>\$ 2,929,574</u>
TOTAL ASSETS	<u>\$ 4,599,584</u>	<u>\$ 4,651,126</u>	<u>\$ 626,185</u>	<u>\$ 9,876,895</u>

ASSETS - ENTERPRISE FUNDS

IRONWOOD, MICHIGAN

2004

	Water Utility	Sewer Utility	Pat O'Donnell Civic Center Operations	Totals
LIABILITIES				
Current liabilities:				
Accounts payable:				
Trade	\$ 37,061	\$ 5,068	\$ 10,980	\$ 53,109
Construction	18,518			18,518
Accrued interest	28,127	8,395		36,522
Due other funds	140,871	191,409	31,985	364,265
Customer deposits	26,381			26,381
Current maturities on long-term debt	<u>90,572</u>	<u>28,501</u>	<u>12,014</u>	<u>131,087</u>
Total Current Liabilities	\$ 341,530	\$ 233,373	\$ 54,979	\$ 629,882
Long-term debt:				
Compensated absences	\$ 137,276	\$ 22,001		\$ 159,277
General obligation limited tax bonds	103,077	187,653		290,730
Revenue bonds	1,605,000	210,000		1,815,000
Note payable			\$ 124,807	124,807
Less portion included in current liabilities	<u>(90,572)</u>	<u>(28,501)</u>	<u>(12,014)</u>	<u>(131,087)</u>
Total Long-Term Debt	\$ 1,754,781	\$ 391,153	\$ 112,793	\$ 2,258,727
TOTAL LIABILITIES	<u>\$ 2,096,311</u>	<u>\$ 624,526</u>	<u>\$ 167,772</u>	<u>\$ 2,888,609</u>
NET ASSETS				
Net Assets:				
Invested in capital assets, net of related debt	\$ 2,179,454	\$ 1,361,171	\$ 501,178	\$ 4,041,803
Restricted	226,319	25,681		252,000
Unrestricted (deficit)	<u>97,500</u>	<u>2,639,748</u>	<u>(42,765)</u>	<u>2,694,483</u>
TOTAL NET ASSETS	<u>\$ 2,503,273</u>	<u>\$ 4,026,600</u>	<u>\$ 458,413</u>	<u>\$ 6,988,286</u>

The accompanying notes are an integral part of the
financial statements.

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
ENTERPRISE FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

	Water Utility	Sewer Utility	Pat O'Donnell Civic Center Operations	Totals (Memorandum Only)
Operating revenues:				
State grants	\$ 7,500			\$ 7,500
Charges for services	1,639,388	\$ 1,351,063	\$ 59,175	3,049,626
Special assessments	8,221			8,221
Other	<u>15,884</u>	<u>7,129</u>	<u>34,547</u>	<u>57,560</u>
	\$ 1,670,993	\$ 1,358,192	\$ 93,722	\$ 3,122,907
Operating expenses:				
Personnel services	\$ 436,982	\$ 180,374	\$ 33,605	\$ 650,961
Purchase of services	800,657	115,772	44,143	960,572
Charges by Gogebic-Iron Wastewater Authority		756,521		756,521
Materials and supplies	121,755	35,455	12,786	169,996
Provisions for depreciation	<u>115,978</u>	<u>55,571</u>	<u>45,300</u>	<u>216,849</u>
Total Operating Expenses	\$ <u>1,475,372</u>	\$ <u>1,143,693</u>	\$ <u>135,834</u>	\$ <u>2,754,899</u>
Operating Income (Loss)	\$ 195,621	\$ 214,499	\$ (42,112)	\$ 368,008
Nonoperating revenues (expenses):				
Interest earned	\$ 991	\$ 106		\$ 1,097
Debt service interest	(77,030)	(29,309)	\$ (1,279)	(107,618)
Operating transfer in from General Fund			<u>2,000</u>	<u>2,000</u>
Total Nonoperating Revenues (Expenses)	\$ <u>(76,039)</u>	\$ <u>(29,203)</u>	\$ <u>721</u>	\$ <u>(104,521)</u>
Change in Net assets	\$ 119,582	\$ 185,296	\$ (41,391)	\$ 263,487
Net Assets at July 1, 2003	<u>2,383,691</u>	<u>3,841,304</u>	<u>499,804</u>	<u>6,724,799</u>
NET ASSETS AT JUNE 30, 2004	\$ <u>2,503,273</u>	\$ <u>4,026,600</u>	\$ <u>458,413</u>	\$ <u>6,988,286</u>

The accompanying notes are an integral part of the
financial statements.

COMBINING STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

	Water Utility	Sewer Utility	Pat O'Donnell Civic Center Operations	Totals
Cash flows from operating activities:				
Cash received from customers	\$ 1,635,652	\$ 1,348,373	\$ 93,722	\$ 3,077,747
State grant	7,500			7,500
Cash paid to employees and suppliers for goods and services	<u>(1,363,717)</u>	<u>(1,179,057)</u>	<u>(75,022)</u>	<u>(2,617,796)</u>
Net Cash Provided by Operating Activities	\$ 279,435	\$ 169,316	\$ 18,700	\$ 467,451
Cash flows from capital and related financing activities:				
Acquisition and construction of property and equipment	\$ (252,828)	\$ (65,087)	\$ (145,764)	\$ (463,679)
Principal paid on long-term debt	(90,572)	(75,858)	(5,918)	(172,348)
Interest paid on long-term debt	(77,187)	(28,018)	(1,279)	(106,484)
Proceeds from borrowing	<u> </u>	<u> </u>	<u>130,725</u>	<u>130,725</u>
Net Cash Used in Capital and Related Financing Activities	\$ (420,587)	\$ (168,963)	\$ (22,236)	\$ (611,786)
Cash flows from noncapital financing activities -				
Operating transfer in from General Fund			2,000	2,000
Cash flows from investing activities -				
Interest earned	<u>991</u>	<u>106</u>	<u> </u>	<u>1,097</u>
Net Increase (Decrease) in Cash	\$ (140,161)	\$ 459	\$ (1,536)	\$ (141,238)
Cash and cash equivalents at July 1, 2003	<u>366,744</u>	<u>141,409</u>	<u>1,736</u>	<u>509,889</u>
CASH AND CASH EQUIVALENTS AT JUNE 30, 2004	<u>\$ 226,583</u>	<u>\$ 141,868</u>	<u>\$ 200</u>	<u>\$ 368,651</u>

COMBINING STATEMENT OF CASH FLOWS ENTERPRISE FUNDS (CONTINUED)

	Water Utility	Sewer Utility	Pat O'Donnell Civic Center Operations	Totals
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 195,621	\$ 214,499	\$ (42,112)	\$ 368,008
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	\$ 115,978	\$ 55,571	\$ 45,300	\$ 216,849
(Increase) decrease in current assets:				
Accounts receivable	(27,841)	(9,819)		(37,660)
Due from other funds	903			903
Inventories	10,295	7,837		18,132
Increase (decrease) in current liabilities:				
Trade accounts payable	(38,812)	(32,340)	5,433	(65,719)
Salaries and wages	(6,920)	(2,501)		(9,421)
Due other funds	11,390	(49,477)	10,079	(28,008)
Customer deposits	6,251			6,251
Compensated absences	12,570	(14,454)		(1,884)
Total adjustments	\$ 83,814	\$ (45,183)	\$ 60,812	\$ 99,443
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 279,435	\$ 169,316	\$ 18,700	\$ 467,451

The accompanying notes are an integral part of the
financial statements.

COMBINING STATEMENT OF PLAN NET ASSETS - PENSION TRUST FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2004

	Retirement System Fund	Public Safety Retirement System Fund	Totals
ASSETS			
Cash	\$ 280,340	\$ 191,909	\$ 472,249
Receivables:			
Interest	\$ 22,826	\$ 18,314	\$ 41,140
Delinquent property taxes		3,992	3,992
	\$ 22,826	\$ 22,306	\$ 45,132
Investments:			
U.S. Treasury and agency obligations	\$ 738,890	\$ 622,287	\$ 1,361,177
Domestic corporate bonds	803,153	637,300	1,440,453
Domestic stocks and mutual funds	3,274,779	3,069,747	6,344,526
Money market funds	435,698	334,664	770,362
	\$ 5,252,520	\$ 4,663,998	\$ 9,916,518
	\$ 5,555,686	\$ 4,878,213	\$ 10,433,899
LIABILITIES			
Liabilities -			
Accounts payable	\$ 1,924	\$ 6,857	\$ 8,781
NET ASSETS			
Net assets (deficiency) held in trust for:			
Pension benefits	\$ 5,601,399	\$ 4,786,777	\$ 10,388,176
Postemployment health care benefits	(47,637)	84,579	36,942
	\$ 5,553,762	\$ 4,871,356	\$ 10,425,118

A schedule of funding progress for each plan is presented in Note R to the financial statements.

The accompanying notes are an integral part of the financial statements.

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION TRUST FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

	Retirement System Fund	Public Safety Retirement System Fund	Totals
Additions:			
Contributions:			
General property taxes		\$ 155,986	\$ 155,986
Employee contributions	\$ 127,209	60,064	187,273
Employer contributions	<u>139,348</u>		<u>139,348</u>
Total Contributions	\$ 266,557	\$ 216,050	\$ 482,607
Investment income:			
Net appreciation in fair value of investments	\$ 390,275	\$ 397,468	\$ 787,743
Interest and dividends	<u>146,629</u>	<u>134,335</u>	<u>280,964</u>
	\$ 536,904	\$ 531,803	\$ 1,068,707
Less investment expense	<u>(32,445)</u>	<u>(24,168)</u>	<u>(56,613)</u>
Net Investment Income	\$ 504,459	\$ 507,635	\$ 1,012,094
Total Additions	\$ 771,016	\$ 723,685	\$ 1,494,701
Deductions:			
Retirement benefits	\$ 378,499	\$ 523,422	\$ 901,921
Postretirement health care benefits	112,362	152,410	264,772
Refunds of member contributions	44,815		44,815
Administrative expense	<u>9,905</u>	<u>22,326</u>	<u>32,231</u>
Total Deductions	\$ 545,581	\$ 698,158	\$ 1,243,739
Net Increase	\$ 225,435	\$ 25,527	\$ 250,962
Net assets held in trust for pension benefits at July 1, 2003	<u>5,328,327</u>	<u>4,845,829</u>	<u>10,174,156</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT JUNE 30, 2004	<u>\$ 5,553,762</u>	<u>\$ 4,871,356</u>	<u>\$ 10,425,118</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
TRUST AND AGENCY FUND - CURRENT TAX COLLECTION FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

	Balance at July 1, 2003	Additions	Deductions	Balance at June 30, 2004
ASSETS				
Cash	\$ 100	\$ 3,547,438	\$ 3,546,634	\$ 904
LIABILITIES				
Due Ironwood Area Schools		\$ 732,140	\$ 732,140	
Due Gogebic County		651,424	651,424	
Due State of Michigan		304,126	304,126	
Due Intermediate School District		207,406	207,406	
Due other funds	\$ 100	1,632,968	1,633,068	
Due other units		19,374	18,470	\$ 904
	<u>\$ 100</u>	<u>\$ 3,547,438</u>	<u>\$ 3,546,634</u>	<u>\$ 904</u>

The accompanying notes are an integral part of the
financial statements.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

Federal Grantor/ Pass-through Grantor/ Program Title	Federal Catalog of Domestic Assistance Number	Federal Expenditures
PRIMARY GOVERNMENT		
<u>U.S. Department of Agriculture</u>		
Direct - USDA Natural Resources Conservation Services - No. 69-5D-21-3-28	10.904	\$ 26,850
<u>U.S. Department of Housing and Urban Development</u>		
Passed through State of Michigan Department of Commerce - Community Development Block Grant:		
MSC-202003-EDIG	14.228	\$ 133,843
MSC-2002-0072-NPP	14.228	269,558
M-2001-0072	14.239	65,340
		<u>\$ 468,741</u>
<u>U.S. Department of Transportation - Federal Highway Administration</u>		
Passed through State of Michigan Department of Transportation: (See Note 5)	20.205	
Job No. 74124A		\$ 269,384
Job No. 55829A		107,964
		<u>\$ 377,348</u>
Passed through State of Wisconsin Department of Transportation - Job No. BR-2003-284		98,208
		<u>\$ 475,556</u>
<u>Federal Emergency Management Agency</u>		
Passed through Michigan State Police:	83.544	
FEMA Disaster 1413-DR - No. 053-41060		\$ 193,998
FEMA Public Safety - No. EMW-2003-FG18672		2,430
		<u>\$ 196,428</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 1,167,575</u>

See Notes to Schedule of Expenditures of Federal Awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

-
1. Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Ironwood, Michigan, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Expenditures in this schedule are in agreement with the amounts reported in the financial statements.
 2. Loans Outstanding - City of Ironwood, Michigan, had two loan balances outstanding with U.S. Department of Agriculture at June 30, 2004, for a total of \$361,000.
 3. Subrecipients - Of the federal expenditures presented in the schedule, City of Ironwood, Michigan, provided no federal awards to subrecipients.
 4. All programs are considered Type B programs, except the U.S. Department of Housing and Urban Development Program, which was selected as a major program, Type A, using the risk-based audit approach and the 25% low-risk auditee coverage rule.
 5. U.S. Department of Transportation - Federal Highway Administration contracts of \$377,348 passed through State of Michigan were accounted for by the State of Michigan. City of Ironwood, Michigan, was not responsible for compliance provisions related to the contracts. No compliance procedures were performed or required on the contracts. The \$377,348 was excluded from total expenditures of federal awards for purposes of determining the 25% auditee coverage rule.
 6. Component Unit Excluded from Schedule of Expenditures of Federal Awards

Ironwood Housing Commission, a component unit of City of Ironwood, Michigan, contracted to have its own audit for its year ended June 30, 2004. Accordingly, the Schedule of Expenditures of Federal Awards excludes any information pertaining to Ironwood Housing Commission. A copy of the Commission's Schedule of Expenditures of Federal Awards can be obtained at their offices at 515 East Vaughn Street, Ironwood, Michigan 49938.

STATEMENT OF APPLICATION OF BLOCK GRANT FUNDS - GRANT NO. M-2001-0072

CITY OF IRONWOOD, MICHIGAN

For the Grant Period from June 1, 2002 through June 30, 2004

	Authorized Costs	Actual Costs	Under (Over)
<u>Activity</u>			
Housing Rehabilitation Grants	\$ 150,000	\$ 144,375	\$ 5,625
Administration	<u>16,600</u>	<u>15,800</u>	<u>800</u>
	\$ 166,600	\$ 160,175	\$ 6,425
<u>Other Funds/Sources</u>			
Housing Rehabilitation:			
Homeowner contributions	\$ 37,500	\$ 44,861	\$ (7,361)
Recapture funds	<u> </u>	<u>2,497</u>	<u>(2,497)</u>
	<u>\$ 37,500</u>	<u>\$ 47,358</u>	<u>\$ (9,858)</u>
	<u>\$ 204,100</u>	<u>\$ 207,533</u>	<u>\$ (3,433)</u>

STATEMENT OF APPLICATION OF BLOCK GRANT FUNDS - GRANT NO. MSC 2002-0072-NPP

CITY OF IRONWOOD, MICHIGAN

For the Grant Period from July 1, 2002 through June 30, 2004

	Authorized Costs	Actual Costs	Under (Over)
<u>Activity</u>			
Rental Rehabilitation	\$ 252,500	\$ 249,471	\$ 3,029
Homeowner Rehabilitation	75,000	75,000	
NPP Demolition	27,000	27,000	
NPP Public Improvement	90,500	90,500	
NPP Beautification	10,000	10,000	
Home Acquisition	25,000	25,000	
Home Rehabilitation	20,000	20,000	
Administration	<u>110,000</u>	<u>100,000</u>	<u>10,000</u>
	\$ 610,000	\$ 596,971	\$ 13,029
<u>Other Funds/Sources</u>			
Housing Rehabilitation:			
Homeowner contributions	\$ 81,875	\$ 105,847	\$ (23,972)
PIP packaging fees		600	(600)
Recapture funds		<u>5,939</u>	<u>(5,939)</u>
	<u>\$ 81,875</u>	<u>\$ 112,386</u>	<u>\$ (30,511)</u>
	<u>\$ 691,875</u>	<u>\$ 709,357</u>	<u>\$ (17,482)</u>

STATEMENT OF APPLICATION OF BLOCK GRANT FUNDS - GRANT NO. MSC 202003-EDIG

CITY OF IRONWOOD, MICHIGAN

For the Grant Period from August 1, 2002 through June 30, 2004

	Authorized Costs	Actual Costs	Under (Over)
<u>Activity</u>			
Infrastructure			
Road Improvement	\$ 84,375	\$ 82,139	\$ 2,236
Engineering	105,480	96,314	9,166
Project Sign	<u>350</u>	<u>350</u>	
	\$ 190,205	\$ 178,803	\$ 11,402
<u>Other Funds/Sources</u>			
Local contribution	\$ 144,445	\$ 100,539	\$ 43,906
Michigan Department of Transportation	375,000	269,384	105,616
Michigan State Housing Development Authority	<u>20,000</u>	<u>20,000</u>	
	\$ 539,445	\$ 389,923	\$ 149,522
	<u>\$ 729,650</u>	<u>\$ 568,726</u>	<u>\$ 160,924</u>

SUPPLEMENTAL
REPORTS

JOKI, MAKELA & POLLACK, P.L.L.C.

**CERTIFIED PUBLIC ACCOUNTANTS
301 N. SUFFOLK STREET
IRONWOOD, MICHIGAN 49938-2027**

**T. J. MAKELA, C.P.A.
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**REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Mayor and Members of the Commission
City of Ironwood
Ironwood, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Ironwood, Michigan, as of and for the year ended June 30, 2004, which collectively comprise City of Ironwood, Michigan's basic financial statements and have issued our report thereon dated September 24, 2004. We did not audit the financial statements of the Ironwood Housing Commission. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors. The City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of June 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Ironwood, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the report of other auditors disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Ironwood, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to

our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Ironwood, Michigan's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management, others within the organization, the City Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Joki, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
September 24, 2004

JOKI, MAKELA & POLLACK, P.L.L.C.

**CERTIFIED PUBLIC ACCOUNTANTS
301 N. SUFFOLK STREET
IRONWOOD, MICHIGAN 49938-2027**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Mayor and Members of the Commission
City of Ironwood
Ironwood, Michigan

Compliance

We have audited the compliance of City of Ironwood, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. City of Ironwood, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. We did not audit the financial statements of the Ironwood Housing Commission. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors. The City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of June 30, 2004. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Ironwood, Michigan's management. Our responsibility is to express an opinion on City of Ironwood, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Ironwood, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Ironwood, Michigan's compliance with those requirements.

In our opinion, City of Ironwood, Michigan, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of City of Ironwood, Michigan, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Ironwood, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the City Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Joki, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
September 24, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Ironwood, Michigan.
2. There was one reportable condition disclosed during the audit of the financial statements reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of City of Ironwood, Michigan, were disclosed during the audit.
4. There were no reportable conditions disclosed during the audit of the major federal award programs reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for City of Ironwood, Michigan, expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for City of Ironwood, Michigan, to be reported in Part C of this schedule.
7. The programs tested as major programs are the Community Development Block Grant programs, C.F.D.A. Number 14.228.
8. The threshold for distinguishing Type A programs was \$300,000. All programs were considered to be Type B programs, except the major program.
9. City of Ironwood, Michigan, was determined to be a low-risk auditee.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

(04-01) Public Act 621 of 1978 Disclosure

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. In the body of the financial statements, the City's actual expenditures and appropriations have been shown on a functional basis. The approved budgets for the City for these budgetary funds were also adopted on the functional level.

During the year ended June 30, 2004, the City incurred expenditures in certain of its budgetary activities, which were significantly in excess of the amounts appropriated, as follows:

<u>Activity</u>	<u>Appropriations</u>	<u>Expenditures</u>	(Unfavorable) <u>Variance</u>
General Fund:			
Public Works	\$ 401,848	\$ 505,449	\$ (103,601)
Operating transfers out	424,539	493,733	(69,194)
Special Revenue:			
Public Works	\$ 956,450	\$ 996,458	(40,008)
Capital outlay	591,500	675,849	(84,349)

We recommend that the City Commission amend its budget prior to year-end to avoid expenditures in excess of budget.

C. FINDINGS AND QUESTIONED COSTS - FEDERAL AWARD PROGRAM AUDIT

There were no findings or questioned costs disclosed during the audit of the major federal award programs.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2004

There were no findings or questioned costs relative to federal awards during the prior year audit.